PRIVATISATION IN AFRICA: The Way Forward

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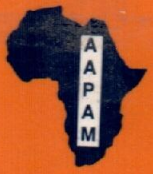
edited by *Olu Fadahunsi*



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The debate on what to do with public enterprise is still quite intense. In many countries, the performance of public enterprises is poor and governments, for various reasons, are no longer in a position to give subventions. In addition to ensuring that the public enterprises are properly managed, the privatisation option has been generally accepted as a means to develop the private sector and reduce the size of the public sector. This publication is issued to keep in proper focus the debate on privatization and to suggest the way forward. It puts the privatisation debates in perspective and discusses the state of the public and private sectors with a view to providing the necessary background to an understanding of the privatisation question in Africa.

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ISBN: 9966 920 00 5

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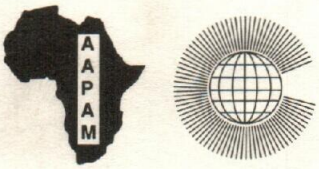

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Published by
The African Association of Public Administration and Management (AAPAM)
P. O. Box 48677
Nairobi, Kenya

Printed by the Regal Press Kenya Ltd.
P. O. Box 46166
Nairobi, Kenya

ISBN: 9966 920 00 5

FOREWORD

Africa is currently facing enormous challenges on all fronts: widespread poverty, crushing debt burden, low or negative growth rate, low capacity utilisation, and political instability, among others. Many African governments have responded to these crises in various ways, including making bold and imaginative policy pronouncements, but these efforts have been seriously constrained by weak institutional arrangements, poor management and a lack of capacity to implement economic reforms that can bring desired relief. Inadequate managerial capacity has posed a real problem to genuine developmental efforts in many countries. The skills needed to formulate, execute, monitor and evaluate macro-economic programmes and operate productive enterprises are still in short supply in most of the countries and available skills are sometimes not fully or appropriately utilised.

Against this background, and at a time of rapid global developments that continue to impact on socio-economic development worldwide, the African continent needs to pause and reflect on first, the root causes of the continued economic problems facing its people and second, on appropriate ways and methods of resolving them. It is generally agreed that the reform of the public sector and a revitalisation of the private sector, if done properly, could go a long way towards bringing about the level of development required to eliminate poverty in this generation. Several countries have therefore embarked upon selective or mass privatisation and some have coupled this with a commercialisation of public enterprises. This book has been re-written to take account of these developments and to assist all those who seek to understand the driving force behind the African recovery programme.

In commending this publication to policy-makers in government, managers of public and private sector organisations and students of public sector management, we fervently hope that the suggestions and data provided will be carefully studied and used to maximum effect.

Ali D. Yahaya
Secretary-General
AAPAM

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ACKNOWLEDGEMENTS

The publication of this book would have been impossible without the co-operation of the contributors to this edition. These papers were presented at the roundtables organised by the African Association for Public Administration and Management and the Management and Training Services Division of the Commonwealth Secretariat. The contributors, in alphabetical order, are: M. Aboud, former Auditor-General, Tanzania; W. Adda, Executive Chairman, State Enterprises Commission, Ghana; M.J. Balogun, Senior Regional Adviser, UN-ECA, Addis Ababa; Paul Cook and Colin Kirkpatrick, University of Manchester and Bradford; Abdul Aziz Dia, Senegal; Peter Efange, Senior Regional Adviser, UN-ECA; I.D. Ewen-Tohma, Ghana; S.M.B. Fye, former Director-General, The Gambia; David B. Jones; Solomon Kagwe, CAFRAD; Alfred Kandeh, Executive Director, PERDIC, Sierra Leone; E.C. Kaunga, Executive Director, ZIMCO, Zambia; Ibbo Mandaza, Executive Director, SAPES, Zimbabwe; George Mbowe, Chairman, Parastatal Commission, Tanzania; S. Muindi, Ministry of Finance, Kenya; William Okecho, Executive Director, Divestiture Implementation Committee, Uganda; Mary M. Shirley, The World Bank, Washington, D.C; M.N. Sikwila, Ministry of Finance, Zimbabwe, A.M. Touray, National Investments Board, The Gambia; Udo Udo-Aka, Managing Consultant, Lagos; W.N. Wamalwa, Chairman, Governing Board, AAPAM; H.R. Zayyad, Chairman, Technical Committee on Privatization and Commercialization, Lagos.

I also wish to acknowledge the assistance of our secretarial staff who had to work extra time to produce the manuscripts, especially Ms May Nakatudde and Miss Audrey Wood. Many thanks also to Mr Roy Chalmers for his assistance in the proofreading, design and layout of the manuscripts.

While these individuals have assisted in one way or another to bring out the publication, responsibility for everything in the book is mine.

Olu Faduhunsi
London
15 June 1995

CONTENTS

PRIVATISATION IN AFRICA:
The Way Forward

INTRODUCTION

When this book was first published in 1986, there was a lot of sceptism about 'privatisation', what it stands for and what it intends to accomplish. This sceptism was reflected in the title of the book at that time '*Public Enterprise Versus Privatization: Which Way for Africa?*'. The conference of the African Association for Public Administration and Management (AAPAM), which formed the basis of sections one and two of this book, was held in Lilongwe, Malawi in 1984. That conference followed the first major privatisation by the Thatcher administration in 1981 when British Aerospace was privatised. The first edition of the book was published a decade ago and since then a lot has happened regarding the privatisation option. Section Three of the book comprises case studies presented and discussed in the series of workshops on privatisation organised by the Commonwealth Secretariat. Several African countries were drawn to the privatisation bandwagon either because of their conviction that it was the right thing to do or because they were cajoled, if not compelled, by the international financial institutions to face the challenges of their structural adjustment programmes with privatisation as a key element.

The debate on what to do with public enterprise is still quite intense. The performance of public enterprises (PEs) in many countries is poor and they continue to be a drain on the treasury at a time when the it cannot afford the huge subventions that are needed to keep such PEs in business. Also, in several countries, PEs have grown beyond their original purpose, size and objectives, without any effort at re-defining or clarifying those objectives; others have been saddled with objectives which are not clear, while some were expected to function like commercial enterprises but lacked the real freedom to take any meaningful decisions in developing themselves as virile commercial ventures. In some cases, PEs were assigned goals and responsibilities without any resources to accomplish the tasks or to meet set goals, while others laboured under administered prices or pricing policies to which they made no meaningful contributions. Appointments to the posts of chief executives and boards of PEs in some countries have been made not on merit but as political favours to reward electoral failures or unquestioned loyal support during electioneering, while ministerial intervention in the day-to-day running of the enterprises occurs routinely and regularly. Many PEs found it impossible to prepare audited accounts as required by law or other regulations in force, and accountability for results was an elusive phenomenon. Poor management or mismanagement of resources was the order of the day in many PEs – corruption, inefficiency and nepotism, among others, were common, while political instability and a less conducive enabling environment only compounded the problems in some countries.

By and large, this was the background against which the reform programmes were introduced during the last fifteen years. The privatisation option has become increasingly important during this period while many countries have taken decisive steps to commercialise or privatise key PEs, especially the utilities.

The last decade has heralded several developments in the world at large, all of which have impacted on the privatisation movement. The fall of the Berlin Wall and the eventual emergence of Germany as a united nation has given privatisation a boost, especially in the former East Germany whose economy needed radical restructuring to catch up with the West. Privatisation has become a ready tool to do this. The wave of democratisation sweeping across Eastern European countries has, with some help from the West, given privatisation a much needed psychological and ideological boost, enabling perhaps for the first time, the privatisation of a whole economy in place of the piecemeal privatisation that has been witnessed in the West. The voucher system, first tried out in Poland, has become a basic strategy for privatisation and Hungary, the Czech Republic and Slovakia have followed the path already charted by Poland.

Africa generally witnessed an economic boom in the 1960s and 1970s, but almost all the gains were doomed. For some countries, the decade of the 1980s was one of total loss, for others the decade witnessed a reversal of fortunes, many African countries recorded negative growth rates and some were demoted from middle to low income countries, including Nigeria which was once regarded as the "giant of Africa". The easy money of the 1960s and 1970s led many African countries to borrow huge sums of money, ostensibly for development projects, and the interests on these loans mounted by the day. According to World Bank sources, by 1994, Africa's estimated debt had risen to US$199 billion, representing 68.3 per cent of the continent's total GNP (excluding South Africa). Debt services which stood at US$8.9 billion in 1980 rose to US$14 billion in 1992, representing 17 per cent of the region's total export earnings during that year and five per cent of its GNP. Poverty is pervasive in Africa and the continent currently has 16 per cent of the world's 1.3 billion poor people. It has been estimated that about 60 per cent of the total population in Africa lives below the poverty line. (World of Work, The Magazine of the ILO, March 1995.)

This then is the situation that called for action from both the African governments and the financial institutions/donors to whom the debts are owed. The World Bank and the IMF had designed elaborate systems usually referred to as SAP or ESAPS – all of which have essentially the same elements: liberalisation and deregulation of the economy, restructuring and reforms of the public service, including the parastatal sector, devaluation of national currency, and revitalisation and development of the private sector. In all these, privatisation and commercialisation had been at the forefront, partly because governments' financial troubles originated

from huge subventions and transfers to public enterprises which gave very poor returns on investments. Invariably, public enterprises are inefficiently managed, over-staffed, corrupt and archaic. It was generally believed, especially by the donor community, that privatising these enterprises would remove the burden from government and shrink the size of the public sector, to give the private sector the opportunity to lead the economy out of the mess in which it had found itself.

While the first edition of this book posed the question: which way for Africa?, this present volume charts the way forward. Privatisation has been with us long enough for us to start asking ourselves what should be the attitudes of African governments towards privatisation. It is no longer acceptable to blame international financial institutions for the glaring errors of our leaders and the public; it is time to stop blaming any body or organisation for the imposition of a development strategy that needs all the wisdom of our leaders to introduce and implement successfully.

The U.K. Government put into practice an idea that was deeply embedded in the socio-political ideology of the conservative party when in 1979, Thatcher persuaded her Cabinet that privatisation was the way to the future. Although the British financial and banking community at that time was neither convinced nor enthusiastic about the stated objectives behind privatisation, especially the widening of share-ownership, and although the Government itself was unsure whether or not the public would respond positively to the share offer, the privatisation programme began on schedule with the sale of 5 per cent of British Petroleum plc in October 1979 and British Aerospace in February 1981. These and other sales in the early years of the Thatcher administration began the era of privatisation as presently known. By March 1992, 46 major (and dozens of smaller) companies had been privatised and a revenue of £50 billion realised.

As at now, a systematic and comprehensive evaluation of the performance of privatisation even in the U.K. has only just begun and for several countries especially in developing countries, such an evaluation is yet to be done. A recent ICM poll in the U.K. on rail privatisation, quoted by Martin Linton in the Guardian of London (10 February 1993), stated that only 23 per cent believed that rail services would improve after privatisation while 43 per cent believed that services would get worse. Privatisation of the Post Office would be even more unpopular, with only 17 per cent believing that services would get better and 37 per cent believing that services would get worse. In July 1991, the same ICM poll reported that 33 per cent favoured rail privatisation as against 27 per cent who opposed it. The sudden drop in support of rail privatisation was traceable to fears of fare increases, line closures and loss of network benefits. But, according to the report, this followed the pattern of earlier privatisations which were popular when first mooted but became unpopular once the sale had taken place. More people felt

that electricity, telephone, water and gas services had got worse rather than better after privatisation, even though it had made no difference.

What is clear and what can be learnt from the experience so far is that privatisation does introduce some degree of efficiency and competition into the sector of economy, fills the treasury coffers with proceeds, which if judiciously used, could be beneficial to the economy, e.g. paying or reducing the stock of national debt and increasing substantially the proportion of share-owning public who may become dedicated converts to the ideals of democratic capitalism. It would appear that a wholesale support for privatisation, even where the voucher system has been adopted, is yet to be found. That should not be taken to mean that privatisation has no real merit. Of course, it has merit when every effort has been made to plan it and monitor its execution. One should quickly add, however, that privatisation can also become an economic monster in the hands of unscrupulous politicians, particularly in countries where transparency and accountability have been thrown overboard or where clear-cut policy on privatisation does not exist or only exists on paper. Privatisation has also created private monopolies, thus substituting them for public monopolies at a time when the wealth-creating potential of privatisation, especially among key executives of privatised companies has sky-rocketed. In the U.K., for instance, the Prime Minister, John Major has had to come up with a promise to stem the tide of CEOs' huge salaries, possibly by legislation.

For African countries, the basic question is privatisation for what, by whom and for whom? When the Thatcher government embarked on privatisation, the government made it abundantly clear for what reasons it was proposing to privatise selected enterprises. It was "to promote efficiency, whether through competition or other means, and to widen and deepen share ownership". The Australian Government, according to press reports, would sell off Qantas, the national air carrier in order to raise one billion US dollars.

How many African governments have had the opportunity to discuss and even debate the need to privatise or for what purpose it should privatise. If privatisation is to be meaningful in African countries, governments must debate its merits and demerits and do so without the financial institutions holding the dagger over their heads. For as long as privatisation is imposed from elsewhere, as has happened in some countries, i.e. planned, sealed and delivered in Washington DC, the programme will only be regarded with suspicion and its impact, if any, on the development process will be minimal. A few African governments that have worked hard to "own" the privatisation programmes will bear this out.

Similarly, privatisation will be meaningful if it involves the people. A situation whereby the programme is neatly drawn up and handed over to recipient countries on the excuse that the people do not have the qualified personnel to handle the key

phases of the programme, is quite unhelpful. While no one can deny the very complex nature of the programme and the mix of skills that are required to carry it out, it is inconceivable that a decade after the start of the programme, the skills situation still remains critical. The absence of the required skills to carry out the key phases of privatisation should have informed its protagonists that they need to intensify efforts either in training or re-training key personnel in Africa, or to devise suitable schemes to attract qualified personnel from Europe and North America to Africa, as has been attempted briefly in Ghana. The point is that even if you find foreign experts (and some of them will be needed, at least initially) to start off the privatisation programme, it will be extremely expensive to hire foreign experts to sustain the programme, and to monitor and evaluate it.

Right from the beginning, privatisation in the U.K. was, first and foremost, for the British people and various mechanisms were put in place to ensure the attainment of this goal. Thus foreign allotment was predicated on the level of domestic response and, where the public response was very high, foreign investors would lose their allotment levels. In Africa, although various governments expected privatisation to be for their citizens, the high incidence of poverty and the sheer size of investment required meant that only a tiny proportion of the citizens actually benefited from the privatisation sales. In some countries, non-African indigenes who were financially better off had a field day. In others, privatisation reportedly made a selected few very prosperous.

The Eastern European countries and the Russian Federation faced up to this challenge by adopting the voucher system in their mass privatisation programmes. While mass privatisation is at a discussion stage in two or three African countries, this has not been adopted as an option. Of course, it must be mentioned that the voucher system has its drawbacks and it is of doubtful usefulness, especially in the African setting where electoral registers, high rural dwelling and illiteracy may constitute a barrier.

But all these point to one important conclusion – whether or not privatisation as currently being adopted and practised is the right way for the future. Each country will need to answer the question for itself and it will be based not only on the socio-political ideology of the country (if any) but also on the priorities and the level of preparation. While John Major's Conservative government has come out in favour of privatising British Rail and the Post Office, the Labour Party under Tony Blair has questioned the scheme, even when party leaders now embrace selective privatisation.

African countries need to satisfy themselves on where they stand on the role of the state in economic development. Does the state still have an important role to play in bringing about economic prosperity? If so, how should the state play such a

role at a time when it is generally believed that the public sector is too large and over-burdened? Should the state play such a role by rolling back the frontier of the public sector and possibly expand correspondingly the frontier of the private sector? How large should the public sector be, keeping in mind the size of the utilities and the critical role they play in economic development? Is privatisation the answer to the multifarious problems that face African economies, including wasteful and poor resource allocation, unbridled corruption, nepotism and starvation levels remuneration package that is being used to justify corruption, low productivity and low morale?

There is a growing democratisation and human rights movement across Africa – a development that may eventually see the demise of the remaining autocrats and tin-gods in the continent. However, the justification for the privatisation programme has been the abysmal performance of the public sector organisations, including the public enterprise sector. Given the enabling environment of PEs and the Civil Service, could they have faired better? Is privatisation really the panacea to our economic problems or is it not also good governance, effective, efficient and accountable management? This then raises an ideological question. Should a serving government arrogate to itself the authority to dispose of national assets accumulated over many years and dictate at what price, including the market price, these assets should be sold, without satisfying itself that all options have been carefully assessed? Or to look at the issue from another angle, should a non-democratic government, however good its intentions might be, have the moral right to dispose of national assets accumulated by legitimate and democratic governments chosen by the people? In several African countries where markets are imperfect, externally controlled or still developing, how valid are the claims that assets sales reflect market prices? Which markets – domestic or foreign?

It would appear that privatisation has come to stay. But several questions are yet to be answered and these questions need to be addressed before a successful programme can be embarked upon. Governments need to examine seriously the fundamental causes of the problems facing their national economies. Commercialisation of selected enterprises might be the solution but commercialisation has to be done properly. Corporate planning and performance contracts enable stakeholders to get the maximum out of many PEs without resorting to outright privatisation. Where governments clearly believe that they have no business carrying out specific activities, the private sector should be encouraged to take over and privatisation can be justified in that case.

Today, governments need to encourage and mobilise domestic and foreign investments in order to develop the economy. Some governments need to handle far fewer projects than at present and some clearly need to introduce competition and allow the market sufficient freedom to operate. The private sector in many of

our countries needs to be expanded and revitalised. In these situations, governments need to take urgent, systematic and meaningful steps towards privatisation of selected companies. The question of what will be sold, how it will be sold and at what price are details that have now received adequate attention, including a recent publication by the Commonwealth Secretariat entitled: The Management of the Privatisation Process: A Guide to Policy-Making and Implementation.

However, where governments believe that the problems of the PEs have nothing to do with ownership of the enterprise, then it might be useful to consider other options besides privatisation, such as management contracts, contracting out, leasing etc. The non-privatisation options should not be taken lightly.

A government that is democratic and accountable to the people is very likely to promote an accountable public sector. Governments must accept that they have a business providing services and delivering products to the people who elected them. This must be done properly and efficiently. It is doubtful that an inefficient government can provide the right environment for the private sector to operate successfully. In other words, there is a strong possibility that privatisation, after all, may not be as successful as people are being made to believe, if government machineries are inefficient. Privatised companies need to be monitored and even managed to ensure that agreed sale conditions are faithfully implemented. The management of the post-privatisation phase is important.

The revised edition of this book has been issued to keep in proper focus the debate on privatisation and to suggest the way forward. It puts the privatisation debates in perspective and discusses the state of the public and private sectors with a view to providing the necessary background to an understanding of the privatisation question in Africa. It reminds PE stakeholders that they should examine all possible options in an effort to tackle the problems facing the PE sector. It argues that should governments decide to privatise or accept suggestions to privatise, then they need to state clearly what the policies are and how such polices are to be implemented. Governments should provide the necessary leadership in moving the privatisation issue forward or the initiative may be hijacked and they may be handed externally induced privatisation policies and packages to be implemented, regardless of the merits or demerits of such policies or programmes.

The last chapter of the book summarises the key issues discussed by the contributors. It gives a concise introduction to each chapter in the book and provides a complete picture of the arguments advanced by the contributors. The book points the way forward in the management of public enterprises and privatisation programmes in Africa. Sections One and Two provide information on the nature and characteristics of the public and private sectors in Africa and

examines in great detail the performance of the PEs. The second section presents the case for either commercialisation (in respect of those PEs that should be managed in the private sector). Section Three provides up-to-date information on the status of the privatisation programme and the challenges facing the programme in twelve African countries and makes copious references to other countries which are actively involved in privatisation. In addition to pointing the way forward in the design and management of commercialisation and privatisation, this publication should enable countries to assess their progress and take remedial action where necessary.

It is my hope that policy-makers, managers and students of public enterprises will find this book helpful.

Olu Fadahunsi
London
15 June 1995

SECTION I

AN OVERVIEW OF PUBLIC AND PRIVATE ENTERPRISES IN AFRICA

1

AFRICAN DEVELOPMENT STRATEGY

with special reference to the Lagos Plan of Action

Peter Efange

Introduction

Africa has the unenviable reputation of being the least developed of the regions of the world with the lowest level of industrialisation, which accounts for a mere one per cent of world industrial output. Per capita incomes are not only low but declining in some cases, economic growth is minuscule and has not kept pace with population increase which is the highest in the world. Many African countries are too small for viable economic activity and without economic and technical co-operation very little can be achieved single-handedly by the majority of African states. In spite of its vast but largely untapped natural resources, the African continent suffers from unintegrated economies of small national markets and is seriously lacking in trained manpower, capital and technology which are vital pre-requisites for transforming the existing socio-economic pattern.

Africa's economic relations with the rest of the world are still largely based on the old colonial system of supplying raw materials for circumscribed foreign markets and importing manufactured goods the prices of which are constantly rising due to a combination of factors, including inflationary trends in industrialised countries. This has led not only to highly vulnerable and dependent economies but has also increased financial indebtedness and persistence of mass poverty, especially in rural areas. The irony is that some of these imported goods could have been produced locally, utilising local raw materials, if the right development strategy had been adopted. These issues have been compounded by political instability, internecine warfare, refugees and, in recent years, by widespread drought. As a result, the continent now depends for its livelihood on massive importation of food from abroad. In the circumstances, it is imperative that Africa evolve a development strategy that will reflect its own social and economic realities and which will also facilitate accelerated development through self-sustaining growth and diversification.

Public Enterprises

Public Enterprise as a Development Strategy

One of the strategies adopted by African governments in the development effort is the use of public enterprises. Public enterprises are today utilised the world over as an instrument of state intervention in national development. In Africa the use of this instrument has acquired a special significance, both in terms of the faith which appears to be placed in their efficacy to achieve developmental objectives and in terms of the amount of resources allocated. The inference appears to be that, in Africa's current under-development and the high expectation of the masses, the state is best suited to tackle the task of initiating and guiding the development process. Consequently, there has been a proliferation of public enterprises in all African countries in terms of numbers, scope, variety and complexity of operation. Today, public enterprises operate in virtually all sectors of the economy – agriculture, banking, commerce and industry, insurance, transportation, tourism, mining, and so on. Some of them provide services such as telecommunications, air, sea and land transport, while others produce goods such as liquor, textiles and cement; some are wholly owned by the state while others are run as joint ventures with private enterprises. The motives for the creation of public enterprises also vary, ranging from the political, economic or social, while others have mixed and even conflicting objectives which combine social welfare and economic motives.

Government use of public enterprises generally has ideological considerations, historical factors and the state of economic development. Thus, in countries which operate socialist-type economies, the general trend appears to be one of elimination or substantial reduction of the private sector; in addition to the traditional fields of public utilities, public enterprises dominate the financial, commercial and industrial sectors. In some of these countries, governments have embarked on nationalisation or public ownership of vital areas of production. On the other hand, in countries which operate a mixed economy, public enterprises appear to be concentrated in the traditional and well-established fields of public utilities, as well as the so-called "commanding heights" of the economy, leaving a substantial proportion of activities in other fields to private entrepreneurs. The situation, however, is far from uniform and a lot may depend on economic circumstances and the prevailing political climate.

Historically, a large number of public enterprises abound in Algeria and in the agricultural sector as the State was obliged to take over and manage many estates abandoned by French colonialists on the attainment of independence. The Cameroon Development Corporation is yet another example where the Government had to take over and manage large plantations lost by their previous German

owners at the end of the Second World War. In other countries, public enterprises have been established specifically to promote the development of relatively backward areas.

Exact and up-to-date figures of public enterprises in Africa are hard to come by, particularly as there does not appear to be a consensus among African countries as to what precisely constitutes a public enterprise; indeed what may be regarded as a public enterprise in one country may not be so regarded in another country. For the purpose of this paper, a public enterprise or parastatal refers to institutions or organisations which are wholly owned by the state or in which the state holds a majority interest, whose activities are of a business nature and which provide services or produce goods and have their own distinct management. This definition would exclude organisations like sports councils, university councils, hospital boards, etc. and would appear to accord with UN General Assembly Resolution No. 3488 (XXX) of 12 December 1975 in which the Secretary-General was requested to prepare a study on the role of the public sector in enhancing the development of developing countries. It was specifically stated in the resolution that the study should focus "on those entities producing traded goods and services which the Government and its agencies own and control (including partial ownership if this is sufficient to give effective control...)."[1]

Public enterprises generally control in full or participate in ventures which, in the public interest, ought not to be exploited solely for individual private gain or profit or treated as a monopoly. Public control of these vital sectors of the national economy is essential for pioneering economic development in certain cases, for social objectives including the provision of employment, for promotional as well as for entrepreneurial purposes. In theory, public enterprises tend to be quite versatile and autonomous. They can raise funds within laid down limits and can maintain reserves; they often receive grants from Government but their financial system is not usually subject to civil service bureaucratic control. They tend to be guided more by development objectives than by purely profit motives and they consequently undertake a much wider range of activities than private undertakings. They are usually set up by a special law or statutory power under separate legislation which gives them the necessary legal status as well as defining their functions.

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1 UN Economic and Social Doc.E/5985 of 24 May 1977

Role of Public Enterprises

Whilst in the majority of cases, the main criterion for the creation of public enterprises is multi-dimensional, the basic reaction for their establishment is to gain control of key sectors of the economy and promote national development. In this regard, a public enterprise could play a pioneering, promotional or entrepreneurial role. With regard to its pioneering role, a public enterprise may venture into areas which are considered of supreme importance to the state and where private individuals may be reluctant to invest because of a lack of capital or because such projects may have a long gestation period. Furthermore, the projects may be where private initiative is least desirable or where it is in the national interest to break a foreign monopoly. This may be done by outright nationalisation as happened in Egypt, Guinea, Algeria and Ethiopia or by the purchase of majority equity shares, as happened in the Zambian copper mines or the oil industry in Nigeria.

A public enterprise may play a promotional role by, for instance, investing in the equity of an existing venture to promote and foster its activities or, in the case of an enterprise of national importance, to save it from bankruptcy. Parastatals could also play a promotional role by providing assistance to private enterprises. Thus in Kenya, the state-owned Industrial and Commercial Development Corporation has, as one of its major functions, the granting of loans to nationals for equity participation in private ventures.[2] It may also undertake pre-investment studies of projects for the benefit of would-be investors and this is of crucial importance in the African region which is so deficient in skills for project appraisal and market analysis. A public enterprise could venture further in its promotional role by, for example, initiating all the necessary preliminaries, including the procurement of capital, arranging for foreign collaborators, technical know-how and the setting up of the legal framework within which prospective enterprises may operated.

Public enterprises have also had to play an entrepreneurial role in an attempt to bridge the deficiency in indigenous entrepreneurial capacity which is widespread in all African countries. Indeed, as the Public Service Review Commission of Nigeria succinctly points out, African governments, through their public enterprises, have assumed an entrepreneurial role and have embarked on ventures and projects which no one could have foreseen or imagined during the early years of independence. As the report aptly puts it, "we are now selling insurance, printing coins; we are sailing ships and refining oil...; we are banking and

2 Kenya Development Plan 1970 - 1974, p.319

building. Tomorrow, we shall be forging steel..."[3] Over the past two decades, African governments have become sole or part-owners of entrepreneurial ventures such as cement factories, textile mills, distilleries and breweries. Others are running bus services to ease transportation problems; almost all are operating national airlines; others construct houses to ease accommodation problems.

Public Enterprises Performance

In spite of the high hopes nurtured in many countries by the creation of public enterprises and in spite of their seemingly inherent potential as agents for promoting development, the experience of many African countries has paradoxically revealed that, on the whole, these institutions are a mixed blessing. Whilst some of them have performed very well, it is equally true that the history of several others is replete with failure and poor performance. Some of them have not lived up to the lofty goals which inspired their creation; others have only been kept going by the provision of vast government subsidies, the writing off of substantial bad debts and preferential tax treatment. In many cases, the rate of return of some public enterprises has been much lower than the cost of financing them on the capital market and neither have they been able to deal effectively with unemployment problems and income disparities. Since parastatals control some of the largest revenue-earning activities, e.g. petroleum and mining, their poor aggregate performance is bound to be especially disturbing. Evidence from individual countries indicate low and declining productivity of many enterprises. For example, parastatals in Senegal which had been in surplus in the mid-1970s recorded a deficit in 1977-78 and again in 1979-80, and the number of money-losing enterprises reached 42 out of 68 in 1980.[4]

The poor performance of public enterprises has impelled several African governments to appoint commissions of enquiry to probe their affairs. These have revealed instances of gross mismanagement, irresponsibility and corruption on the part of officials, as well as unfair and wanton interference in their affairs by politicians. Indeed, as one report succinctly points out:

> "While there are notable exceptions, there is clear evidence of inefficiency, financial mismanagement, malpractices in many parastatals. Furthermore, because of the confusion which exists, it is becoming increasingly

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3 Public Service Review Commission of Nigeria - Main report

4 World Development Report 1983 World Bank Publication (Oxford University Press) p.74

> difficult to say where responsibility for inefficiency or waste lies and there is a growing tendency to shift blame to others when things go wrong. A confused situation of this sort can be exploited in many ways, e.g. to resist public accountability and to engage in corruption and nepotism."[5]

In yet another report on public enterprises, a prominent African administrator stated, inter alia:

> "Public enterprises in Nigeria and Ghana have done so badly that several public enquiries were conducted into their affairs."[6]

These comments are equally applicable to other African countries.

Constraints Inhibiting Effective Performance

The constraints underlying the failures and difficulties of African public enterprises are many, varied and complex; though many of the problems are basically the same, there are variations from country to country as well as between different sectoral public enterprises. A few critical constraints are outlined below and they are illustrative rather than exhaustive. Broadly speaking, these constraints are of a dual nature, firstly, external - those that relate to the environment in which the enterprise operates and are by and large beyond its control; secondly, internal - those inherent within the organisation itself.

External Constraints

- The current world situation, coupled with the galloping pace of modern technology as well as the increasing complexity of global economic and monetary systems, provide a dynamic and extremely

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5 Report and Recommendations of the Committee appointed by His Excellency the President of Kenya to conduct and review Statutory Boards, Government Printers, Nairobi.

6 J O Udoji - Reforming the Public Enterprises in Africa, AAPAM, Reprint No. 3, EA Community (CPS) Printer, Nairobi, p. 218.

volatile background in which public enterprises operate. The fall in commodity prices as well as the protectionist tariffs and other measures adopted by developed countries inevitably affect produce marketing boards and mining companies which are not longer able to operate economically and are compelled to reduce their workforce. The heavy debt burden which many African countries have had to bear, compounded with other monetary problems has resulted in an acute shortage of foreign exchange so that many public enterprises are unable to import vital equipment and spare parts for their operations. In consequence, some enterprises have been compelled, through contractual arrangements to procure inappropriate technologies, obsolete plant designs and equipment from foreigners who either wanted to exploit or were unfamiliar with local conditions and circumstances.

- For either political or social reasons, there has been an unplanned and unco-ordinated proliferation of public enterprises in African countries. The goals and functions of some of them are not clearly defined and even conflict in certain cases. This has resulted in jurisdictional conflicts, duplication of efforts, and dissipation of scarce resources. This situation has in addition created formidable problems of planning and control. In particular, there has been insufficient clarity regarding the distinction between social welfare and economic goals of certain enterprises.

Many public enterprises have a weak financial base; others have been saddled with responsibilities far in excess of available resources. In fact, under-capitalization has been a major constraint of several African public enterprises. Accumulated losses and the reluctance or inability of shareholders, including Government, to increase share capital have created a most unsatisfactory financial position.

The financial guidelines of some enterprises are in some cases not well spelt out; there is no clear indication as to when the enterprise is to cover its costs and when it is to begin to make profits. The procedure for obtaining government grants is often quite protracted while borrowing powers may be limited and circumscribed. Most credit institutions insist on government guarantees for loans. Since most governments generally provide an upper limit to their guarantee, this naturally restricts the number of public enterprises which can obtain such loans. Thus, a carefully developed programme of a financially viable enterprise may be starved of funds merely because it joined the queue at the wrong time. Indeed, even the right to dialogue with

lending institutions must, on occasion, be foregone because another enterprise or agency has previously opened negotiations with the lending institution.[7]

Closely allied to the problem of capital is the issue of pricing. Some African governments, quite often arbitrarily and unilaterally, fix or alter the prices of goods and services for social or political reasons. As a result, several enterprises are compelled to charge uneconomic prices for goods and services which bear very little relationship to increases in the cost of production. The pricing mechanism in Africa has been used as a political weapon and is generally introduced at the most expedient period, which may not necessarily correspond with the most economically judicious period.

- Another constraint relates to the issue of *authority to operate* and this involves the level of political control, and the degree of autonomy vis-a-vis control is a very thorny one. So far, many African governments have not been able to strike a balance between the two. Indeed, as a UN Expert Group Meeting pointed out recently:

> "... although it is the legitimate function of governments to provide overall policy direction to and co-ordinate the activities of public enterprises, in general the control exercises by governments is excessive, extensive and rigid. The control often extends, inter alia, to the appointment of top managers, pricing policies, project evaluation, levels of investment and sources of financing... wage policies, industrial relations, including everyday (current) production management and expenditure... it is not uncommon for political consideration to objective considerations... Complex and time-consuming processes adopted for project evaluation and for financing have eventually resulted in cost over-runs and delays in implementation..." [8]

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7 Marshall, Hall - "Some Management Problems in Public Enterprises" (Paper prepared for CAFRAD Seminar organised in cooperation with the Government of Kenya, November/ December 1976.

8 Report of the Sixth Meeting of Experts on the UN Programme in Public Administration and Finance, Geneva, 10-19 March 1982, Doc. E/1982/52/Add.1, p.23

be fairly autonomous and should be given enough latitude to take decisions within the overall policy laid down by government and the requirements of the national development plan. To aggravate matters, many parastatals are saddled with Boards of Directors often appointed for political reasons instead of competence or business acumen who tend to become a liability to the enterprise. Usually there is friction between the Board and the top management, as well as between the latter and the supervising ministries, including undue interference in the day-to-day affairs of the enterprise. Such interference often has its roots in the lack of proper understanding as to the nature or relationship between the enterprise and government and has crippling effects on productivity.

Internal Constraints

- *Inefficient management*

African public enterprises are plagued with multifarious managerial problems, ranging from organisational and operational issues, low capacity utilisation, poor project appraisal, lack of skilled manpower, as well as faulty procurement and supplies management systems. Because many public enterprises grew out of government departments, there has been a tendency to model them on government departments and to saddle them with civil service rules and procedures which are generally unsuitable for business ventures. Work procedures are often cumbersome, chains of command obscure and work distribution uneven. Such a situation naturally emasculates initiative, dampens enthusiasm and affects productivity. This is particularly the case with rules for financial control which should be more in accord with operational practices related to business circumstances.

It is not unusual to find in the public enterprises of any African countries, complete lack of provision for planning, research and development. Comprehensive corporate planning is lacking. Resource allocation is often based on generalised estimates rather than detailed costing; needless to say, such an unrealistic approach can result in unforeseen shortages of critical inputs caused by faulty resource budgeting practices. Poor planning has also resulted in low capacity utilisation of plant or even in capacities which are in excess of foreseeable needs. Indeed, many African public enterprises embark on projects with inadequate or hardly any feasibility studies; often there is a complete absence of market research for the product or

there is a complete absence of market research for the product or service of a new venture. Research is equally vital in identifying production constraints and for planning new products, services and related investments.

- *Human resources development*

Many African public enterprises suffer from an acute shortage of skilled, trained and qualified manpower. This deficiency is both quantitative and qualitative and is particularly critical at the top and middle levels. Naturally this affects performance and productivity. Indeed, low productivity is a common characteristic of many African public enterprises. Productivity depends on the optimum combination and development of human, capital and natural resources. Human resources are crucial as they form the fulcrum on which everything else revolves; they are the key for the unlocking and mobilising of other resources and must therefore be fully and effectively developed and utilised if productivity goals are to be realised.[9] Staff development policies in African public enterprises are either inadequate, non-existent or dealt with in an ad hoc manner. This is a very serious constraint which affects morale and efficiency. Comprehensive policies should be introduced as a matter of urgency and should be geared towards the full development and growth of human resources, to enable the staff to utilise their capacity fully and apply their knowledge and experience to enhance productivity. Personnel administration is a key factor in this regard and should be oriented to motivate staff. This can be achieved by fair recruitment policies, promotions and realistic job descriptions for each post. These policies should incorporate a clearly defined programme allowing for performance improvement through job-related training; the latter should be matched by satisfactory and relevant placement to ensure optimum performance. In a nutshell, African public enterprises need to embark on a programmed investment in manpower development.

After nearly three decades of independence, public enterprises continue to pose not only a serious challenge but a grave dilemma to African governments, especially as they make large and growing

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[9] Promoting Productivity through Motivation of Staff; Paper presented by Prof. Robert Abramson to the Seminar for Management Personnel in Parastatal Organisations, Mombassa, Kenya, 28 Nov-11 Dec 1976 organised by CAFRAD in collaboration with the Government of Kenya, p.3.

demands on the public exchequer. The World Bank, in one of its reports, pointed out that the African public sector has greatly extended its economic role and calls for reform of the parastatal sector involving the whole question of long-term growth prospects.[10] It must, however, be pointed out at this juncture that the issue of reform and appropriate remedial measures to improve parastatal performance has been dealt with extensively in several African fora and African governments are fully aware of the situation.[11] The World Bank and other international organisations have also put forward positive suggestions to improve performance.[12] The question which poses itself is why do public enterprises still continue to function so badly in spite of the availability of remedial measures. All that can be said is that the medicine for the ills of public enterprises is available but difficult, for various reasons, to swallow.

Private Enterprises

Private enterprises in Africa are either indigenous, foreign-owned, a mix between foreign companies and the public sector, or joint ventures between foreign companies and indigenous private companies. The degree of predominance of any one of these types varies from country to country according to the level of structural transformation of the economy, the influence of public policy and the ideological orientation of the country. Whatever its type and degree, all private enterprises, with the exception of those which are wholly or predominantly foreign, have one common characteristic in their strategy and objectives: economic self-reliance, ownership, control and management of the national economy in indigenous hands. Foreign private control over the economy may be minimal, substantial or excessive; in some cases it may become exploitative and not in the national interest, especially if most of its profits are repatriated abroad.

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10 See *Accelerated Development in sub-Saharan Africa - An Agenda for Action* published by the World Bank, p.30 on Public Enterprise Contracts in Senegal. See also paper presented by ECA Secretariat on the Role of the Public Sector entitled "Improving the Performance of Public Enterprises Public Administration, Management and Manpower".

11 For example, see the 12th Inter African Public Administration and Management Seminar organised by AAPAM in December 1973 -Federal Government Printers, Lagos, Nigeria.

12 See also Report of ECA/OAU Conference on the Role of the Public Sector, Addis Ababa, 22-27 November 1982.

Foreign enterprises contribute to national development only to the extent that investment collaboration is beneficial to them; they can of course play a supportive role but this has to be very carefully watched. Reference to private enterprises in this paper should therefore be construed to refer to those private ventures wholly owned by the indigenous people or those which they control as a result of majority shareholding. At national level, each country has to rely mainly on its own efforts and resources and on the brains and brawn of its own people and organisations, both public and private, for its economic survival and prosperity.

At independence, most African countries inherited a weak private sector or one which was foreign-dominated. In fact colonialism inflicted a mortal blow on the African entrepreneurial spirit by suppressing any enterprises which were regarded as a threat to the commercial interests of the metropolitical power. In Kenya, for example, Africans were forbidden to grow tea and other economic crops which were reserved to the estates of the white settlers. In Nigeria, iron-smelting as a traditional industry was prohibited; in Zimbabwe and other African countries, the same policy was rigorously pursued. In those days, there were restrictions on the movement of goods and persons which stifled any trade across national frontiers. There were cumbersome foreign exchange regulations which made it virtually impossible to do business outside the monetary zone of the metropolitical power. Then, of course, there was the dominance of foreign banks which were in league with the merchant houses and were generally dubious and disdainful of the potential and viability of indigenous ventures. The foreign sector, by contrast, was favoured by easy access to credit and policies of industrial discrimination. It was also showered with liberal immigration quotas and generous tax relief measures which were interpreted as incentives to pioneer industries. As a result, the African economic scene then was dominated by aliens and the indigenous effort mainly focused on crafts, petty trading, transport and the import trade. The situation is only changing gradually. By far the largest business undertakings are European or Asian-owned or are branches of international companies or transnational corporations.

According to the 1965 survey of manufacturing establishments in Nigeria with ten or more employed persons, foreign private ownership comprised 62 per cent of total ownership and 85 per cent of total private ownership in the manufacturing sector.[13] By 1972, on the eve of the promulgation of the 'Nigerian Enterprises Promotion Decree 1972', Nigerians accounted for less than 40 per cent of shareholdings of all business enterprises. The balance of 60 per cent was in foreign

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[13] Nigeria Office of Statistics, Industrial Survey of Nigeria 1964 and 1965 (Lagos, 1968) pp. 32, 33 & 34.

hands.[14] Until 1972, all commerce and industry in Uganda was dominated by Asians. A 1974 survey in Senegal indicated that only five to ten per cent of the entire industrial and commercial sector was in private Senegalese hands.[15] A similar, if not worse, situation prevails in other African countries which means that, after more than two decades of political independence, the bulk of the modern sector business in Africa, including such strategic sectors as shipping, mining and insurance are still owned and directed by foreigners.

A remarkable feature of African indigenous entrepreneurship is its extreme fragmentation. There appears to be deep mistrust and suspicion among African businessmen. As a result, many private enterprises are not only viable but barely able to sustain their owners, let alone make a positive contribution to development – furthermore, due to managerial and technical inadequacies, some of their goods and services tend to be of inferior quality. In order to make a proper impact on development, there is a need for closer associations and partnerships. Bigger enterprises will be able to attract better assistance from government and other agencies.

African entrepreneurs operate under very severe handicaps. The handicaps stem mainly from the lack of basic data and information for investment opportunities or alternatives and decision-making. Information may not be available on market opportunities for a given line of product; many of those with funds to invest do not have access to, or are not capable of making use of information and data on investment opportunities. Project profiles and reports on feasibility studies on small- and medium-scale ventures may be locked away by bureaucrats as "secret" or "confidential" and never brought to the attention of those who should utilise them. Even when a prospective entrepreneur takes the trouble to approach government ministries with responsibility to foster the growth of indigenous entrepreneurship, the enquiry may be received with indifference; letters may not be answered; information on incentives and procedures facilitating incorporation of a new venture or on seeking credit may be withheld for an inordinately long time. Indeed, bureaucracy thwarts private enterprise and initiative at every stage. Since private entrepreneurship are profit-oriented there seems to be a feeling of grudge against officials and public policies which regard it as a national task to go all out to educate, encourage and assist indigenous entrepreneurs to grow so as to

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[14] Teriba, E.C. Edozien & M.O. Kayode "Some Aspects of Ownership and Control Structure of Business Enterprise in a Development Economy; The Nigerian Case", Nigerian Journal of Social & Economic Studies, Vol. 14, No. 1 March 1972.

[15] See Article on Senegal in "Industrialization of African Economies" edited by Prof. Adebayo Adedeji-Hutchinson, University Library for Africa. p. 327.

hold their ground and compete effectively with foreign rivals.

A further constraint is the influence of major foreign companies and transnationals which, through their insidious inter-connections with the financial and mercantile houses, the shipping lines, the patent proprietors as well as through business machinations and sabotage, stultify the growth of indigenous enterprises and, where possible, absorb or emasculate them.

Role of Government

It is the prime responsibility of governments to foster the growth of indigenous entrepreneurship both in the public and private sectors as this is vital for accelerated socio-economic growth.[16] Both the public and the private sector complement each other and it is difficult to visualise an expanding and diversified growth where the two are at variance or where they ignore each other or regard each other as adversaries. It is therefore important to forge the closest possible relations between the two to include consultations on such key issues as the feasibility of national development plan proposals; the roles of particular sections of the indigenous private sector in implementing the part of any national plan allocated to it; the logistic support necessary for it to do so, as well as its role in signalling important sectoral weaknesses and bottlenecks. There should be consultations on import licences for the importation of vital raw materials and capital goods to meet the needs of the economy. In certain cases government policies might involve the promulgation of certain sectors and thereby impede the orderly and systematic implementation of development plans.

The share of investments between the public and private sectors is crucial, as well as their respective roles in quality control and factor inputs. Indeed, where private entrepreneurship is willing to take initiatives that would lead to employment creation and other benefits, including a substantial share in major national industrial undertakings, it should be encouraged to do so in recognition of the already massive entrepreneurial burden borne by the public sector.[17]

In addition to government, parastatal organisations can play a crucial role in the

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[16] See paper "Participation of Government in Business" by G E A Lardner presented at the annual conference of the Nigerian Institute of Management, Kaduan, 7-8 May 1981.

[17] About five years ago the British Government, for example, announced plans for private entrepreneurship to take a greater stake in major off-shore gas and oil exploitation, previously dominated by government holdings.

growth of private indigenous enterprises in, for example:

- sub-contracting some of their business to small companies or, alternatively, helping them to tender for contracts;
- paying indigenous private companies promptly for services rendered;
- making surplus equipment and space available to them;
- giving ad hoc technical advice and teaming up with other enterprises to form advice centres; and
- helping with product development.

In many developed countries, older companies have given house room to small beginners or "hived off" some of their own activities and encouraged former employees to run them. These "management buyouts" have become the corporate flavour in Britain. Advice centres to nurture small business growth or "enterprise agencies" have been big business favourites.[18] In addition, there are agencies which run a type of "marriage bureau" by introducing would-be entrepreneurs to would-be investors, or act as brokers between firms and suitable projects. Also, the seconding of executives is an increasingly popular way for big enterprises with a surfeit of executive and technical capacity to help small companies.

Implementing the Lagos Plan of Action

Broadly speaking, the Lagos Plan of Action which was launched at a special Summit Meeting of African Heads of State and Government in April 1980 seeks to exploit and harness Africa's natural and human resources with a view to attaining accelerated development in agriculture, industry, transport, communications and trade, as well as all supportive production sectors and interlinking them to produce goods and services to meet first and foremost the needs of the African population so as to improve living standards. The Plan envisages the integration and re-orientation of African economies and making them self-reliant and mutually reinforcing; it calls for a reversal of the current international economic order in which Africa plays a secondary and subservient role and which has resulted in the exploitation of its natural resources, primarily for the benefit of the industrialised nations; the Plan advocates a substantial

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[18] The Economist, 3-9 October 1981, p.74.

for the benefit of the industrialised nations; the Plan advocates a substantial increase in intra-African trade, expansion of national and regional markets, exploitation of raw materials for local industries, manufacture of tools and implements for agriculture and other ancillary undertakings, as well as the development and orientation of indigenous skills and entrepreneurship; it also calls for the orientation of the content and structure of educational systems to produce more innovative attitudes and functional knowledge.

Investment Opportunities and Challenges

The Lagos Plan of Action presents investment opportunities and immense challenges in various sectors such as agriculture, industry, trade, transport, communications, etc. It envisages fundamental change in development policy strategy with regard to the exploitation and utilisation of Africa's natural resources, which would involve concerted action by public and private enterprises in the local processing of raw materials and in the manufacture of finished products, as well as the transportation and distribution of these products to national and regional markets; opening up of new horizons to both sectors to engage and respond to a vast array of entrepreneurial ventures so as to attain an increasing measure of self-reliance and self-sufficiency. Some of these ventures include:

Agriculture

The highest priority in the plan is the production of food crops, plantation agriculture and the processing, preservation, storage and distribution of food. Self-sufficiency in food production is vital for the very survival of the continent and for easing balance of payments problems; besides any society that is incapable of feeding itself creates the necessary foundation for political instability. Afterwards, as the old adage runs 'a hungry man is an angry man'. Food has become critical to the entire African continent in the face of the current widespread drought, rising food import bills, stagnation in agriculture and poor harvests. Even in those countries not affected by natural disasters, unprogressive agricultural policies are responsible for the apathy and resignation which are today the lot of the rural majority who are the primary agents for food production. The Lagos Plan of Action spells out the targets to be achieved within the plan period, i.e. self-sufficiency in cereals, livestock and fish products; it also calls for the building of strategic food and forestry reserves. Plantation agriculture, large-scale ranching and deep sea fishing are major fields for public and private investment.

Industry

Industrialisation, including the processing of raw materials to feed industrial plants,

as well as small- and medium-scale manufacturing enterprises to provide inputs and semi-finished products for the basic industries, offer immense opportunities to African entrepreneurs; this applies also to inter-sectoral and intra-sectoral linkages. According to the African Industrial Development Decade, Africa is expected to attain one per cent of world industrial output by 1985 and two per cent by the year 2000. Expressed in percentage terms, these goals seem to be easily attainable, but when expressed in terms of tons of finished products they are not only formidable but staggering. This challenge has to be met not only by public but by private industrial enterprises which should therefore familiarise themselves with the programme.

Trade and Finance

Intra-African trade is also accorded high priority in the Plan as a means of fostering intra-African economic integration and the development of sub-regional and regional markets. At present, trade across national frontiers in Africa is minuscule and most of Africa's trading partners are to be found in the industrialised nations of Western Europe, North America and Japan. Major industrial and agricultural undertakings need standardised markets with extensive demands. It is hoped that African governments will take firm measures to facilitate intra-African trade by pulling down existing trade barriers but the central trading and related distribution functions will remain in the hands of public and private entrepreneurs and this calls for the development of commercial contacts in other African countries in which national banking and other financial institutions will play a crucial role. Joint ventures among African entrepreneurs which cut across national frontiers are bound to provide a new opportunity or closer economic links between African countries.

Transport

In the area of transportation there is scope for closer links between African Airlines, especially in the freighting of merchandise. In this regard, the Association of African Airlines, which already co-operates in traffic schedules, insurance, joint and bulk purchases of spare parts and training, could expand its programme to include commercial ventures which are presently largely in the hands of foreign airlines. When the trans-African highway becomes co-operational, there will be numerous opportunities for long distance road haulage of goods across the continent. Similar opportunities exist for shipping, insurance and other supportive services.

Capability of African Public and Private Entrepreneurship in Implementing the Lagos Plan of Action

The preceding section of this chapter indicates some of the opportunities available under the Lagos Plan of Action for African entrepreneurs. The key question that poses itself is whether these organisations/institutions have the capability which will enable them to make a meaningful contribution to Africa's socio-economic development as spelt out in the Lagos Plan of Action. Are African public and private enterprises capable of taking up the gauntlet? The constraints facing both the public and private sectors have been reviewed. The Lagos Plan of Action offers opportunities to these sectors and if government, entrepreneurs, investors and all those involved take the issues seriously, both the public and private sectors can contribute immensely to the realisation of the objectives and programmes of the Lagos Plan of Action.

Conclusion

To achieve the objective and targets of the Lagos Plan of Action at both national and regional levels, the role of indigenous entrepreneurship, whether in the public or the private sector, has to be fully recognised since this is the sector of the economy which is responsible for translating development policies and strategies into tangible goods and services. Indeed, they are the key agents responsible for determining the size and structure of markets, choice of products as well as the processes for producing them. Therefore, its strength and capability are of paramount importance to ensure that it discharges that role satisfactorily. The main responsibility for this rests with African governments who should take appropriate steps to develop, harness and sustain it through well designed policy measures, assistance programmes and other supportive institutional arrangements. Without such measures it would be foolhardy to expect them in their present form to make any meaningful impact on the implementation of the Lagos Plan of Action. Some pertinent questions to which governments should address themselves include the following:

- Are adequate funds provided for the promotion and development of indigenous entrepreneurship?
- Are relevant information and data readily available to indigenous entrepreneurs?
- What role, for instance, should national research institutions play and are their results made available in a manner that can be used by indigenous investors?

- Should government agencies not play a more constructive role in the preparation of project profiles, including information on the choice and adaptation of technology?

- Are incentives to entrepreneurs ad hoc or systemised as part of a conscious plan to attain well defined objectives?

The development task in Africa is so enormous that it is inconceivable that it should be executed single-handedly by one sector to the exclusion of the other. It is only when the totality of the nation is imbued with a spirit of progress through hard work that the right environment for socio-economic change can be created. Indeed, nations are successful largely because of the collective efforts of their people. Ample opportunity should therefore be given to private individuals or organisations with the talent and the necessary capability to team up with government as the partners in the development effort. Excessive state control of the means of production and distribution retards the growth of entrepreneurship. More flexibility in state control with more incentives to workers and more autonomy for managers, with an encouragement of the private enterprise sector, will contribute to the attainment of the goals and objectives of the Lagos Plan of Action.

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AFRICAN DEVELOPMENT STRATEGY

with special reference to the Lagos Plan of Action

G.G. Mbowe

Introduction

The challenges of public and private enterprises are particularly important now because of the numerous economic problems facing the African region. Over the last century of trade relationships with Europe and America, the African region has played a subordinate role of supplying raw materials to cosmopolitan industries and importing from them manufactured goods to which has been added in recent decades an increasing amount of services on invisible transactions. The trade pattern has not been regarded as mutually beneficial.

A characteristic feature of the development process is the growth of non-developmental imports. Many of the countries in the African region have shown a high propensity to imitate the lifestyle of industrialised countries and they have become increasingly dependent on them for all their requirements, including foreign markets, foreign technology, foreign education facilities and imported food. The upshot of this high dependence has resulted in virtual extinction of traditional technologies.

At the operational level, many African economies depend substantially on decision-making processes which were dictated elsewhere. Investment decision-making is difficult, both in private and public sectors, but is more complex in public enterprises since these constitute an integral part of the instruments of socio-economic change.

Recognising the importance of control and ownership of the commanding heights of the economy, many governments in Africa have taken bold decisions to participate in major means of production. Of course, this decision was inevitable for a variety of motives, such as controlling and regulating output and the price of manufactured goods considered of great importance to the consumers.

African politicians are now discussing what should constitute an appropriate balance between public and private investments, as well as the need to achieve economic self-sufficiency and social advancement in the African region. Several complaints and criticisms have been levelled against the private and public sectors. The reasons for these are obvious. In terms of ownership, control and entrepreneurial initiatives, African economies are characterised by the following features, namely:

(a) predominantly public;

(b) predominantly private;

(c) predominantly mixed; and

(d) predominantly foreign controlled.

The extent of predominance of these types varies from country to country. The determinant factors include:

(a) the level of technological transformation that has taken place in the economy;

(b) the influence of public policy and ideological orientation of the country; and

(c) the historical and cultural transformation of the populace.

With the exception of the predominantly foreign private enterprises, however, the first three types of entrepreneurial predominance have certain common characteristics in both strategy and goal, namely, the desire to achieve the following:

(a) economic self-reliance;

(b) indigenous ownership of enterprises;

(c) control over the commanding heights of the economy, and

(d) placing responsibility of management on the shoulders of the Africans themselves, their governments and their indigenous entrepreneurs.

It should be emphasised that investment decisions within the Lagos Plan of Action should always ensure that basic preparatory work has been undertaken and that all future identifiable activities and their constraints are known to the public and private sectors and have a mutual role of implementing the Lagos Plan of Action. But, all over Africa, entrepreneurial manpower is still a scarce resource; it is shortage of capital, entrepreneurship and technical skills that constitute the most frequently mentioned handicaps in economic development. The constraints of entrepreneurs in Africa could be attributed to a number of environmental, psychological, cultural, economic and political factors. Evidently, there is an acute shortage for entrepreneurship in most African countries because potential entrepreneurs are not very many and most of them are unprepared to take business risks. Some of them suffer from a lack of business confidence, particularly in the industrial sector, and others are conscious of public reaction, particularly in political systems which encourage collective rather than individual entrepreneurship. Another impediment to entrepreneurial development is the lack of capital and technical skills.

Most African countries chose a strategy of development that arises naturally out of their current historical circumstances. In these circumstances, governments have been obliged to take major responsibility for state entrepreneurship and co-operatives. The practical difficulties confronting this grand strategy of development are numerous. The main constraint in Africa is the lack of competent, experienced, skilled personnel in the public sector to carry out meaningful appraisal of investment projects. This deficiency is compounded by the inability of ministries to formulate appropriate packages of policies suitable for the successful implementation of projects. More fundamentally, public enterprises have numerous macro-economic goals. Difficult issues normally arise in public enterprises when evaluating new projects or technologies because of their limited technical competence. A critical review of the situation of private and public entrepreneurship in Africa is presented below.

Public and Private Sectors

In a world of slow growth, high energy costs, and worsening inflation, African countries face unprecedented challenges in the 1990s and beyond. Governments in individual countries are struggling, like developing countries elsewhere, to expand employment opportunities, improve living standards, and bring about the conditions for self-sustaining growth. They are having to do so, in most cases, under the conditions, dictated by geography, history and natural resources and endowment that are perhaps less favourable than in many other areas of the world.

All governments of the Africa region practice a "mixed economy" approach to development, in which significant responsibilities are assigned to both public and private sectors. Each country must decide for itself in the light of its own internal political requirements, what roles it wants to assign to the public and private sectors in the implementation of the Lagos Plan of Action. In this respect, both the private and public sectors will have to demonstrate their ability to readjust to widely different environments and investment options.

Sectoral Review

In most African countries, the private sector has a dominant role in agricultural production. In the sugar industry, public sector ownership predominates in countries such as Tanzania and Ethiopia. Public ownership of lands and forests is significant in nearly all African countries, though in some of them they have assigned important roles to both public and private sectors in exploiting these resources.

Manufacturing activity (excluding some agro-industry), particularly of consumer of incentive goods like chocolates, sweets, soft drinks, shoes, garments, electronics etc, is predominantly private in most African countries. In mining, petroleum and natural gas extraction, the public sector predominates in the majority of African countries but in participation with transnational corporations.

Commercial banks and insurance companies almost everywhere are predominantly private and often foreign-owned, except in Tanzania, Mozambique, Angola, Ethiopia and a few other countries. Where these private financial institutions do not exist they were nationalised immediately after independence.

Tourism in many African countries is dominated by the private sector, although there is significant, and sometimes predominant government ownership of hotels like in Tanzania, Ethiopia, Mozambique and Angola, to mention a few.

Public utilities and services are mostly government-owned in most countries of the region. This category includes telephone, telegraphy, electricity, water supply, news media, air transport, railway services, etc. Public sector ownership in trade and distribution is predominant only in socialist-oriented economies where all the major agricultural marketing boards or authorities are state-owned, and import-export trade is in the hands of public enterprises. In most countries, the private sector provides the bulk of investment in the productive sectors; it produces the largest exports, employment opportunities, managerial and technical skills. In other countries, the public sector acts as the main engine of growth and is the biggest employer. From this analysis, it is recognised that in most African countries, the roles of the public and private sectors are exceedingly important and

that both sectors are vital in assisting the implementation of the Lagos Plan of Action.

The Lagos Plan of Action and Dimensions of Investment

Objectives

The objectives and motives for establishing the Lagos Plan of Action include:

(a) creation of a solid base for self-sustained industrialisation at national and sub-regional levels;

(b) development of human resources to ensure that they are fully mobilised in the industrial process;

(c) sufficient production of agricultural inputs such as fertilisers, pesticides, agricultural tools and machines;

(d) sufficient production of building materials for the construction of decent urban and rural housing for the region's growing population;

(e) development of intermediate and capital goods industries, particularly those intended for either industries and infra-structure building;

(f) on-the-spot processing and upgrading of an increasing range and volume of the region's raw materials;

(g) satisfaction of industry's energy needs by developing the different forms of energy available in the region;

(h) satisfaction of textile requirements;

The following estimates of investments were made:

(a) Six million tons a year of structural steel industry to produce galvanised sheets, steel girders, tubes, bars, etc at - $1,800m.

(b) 40 million tons per annum of cement at the level of investment of US$6,500m.

(c) 3.4 million cubic metres a year of wood and primary wood products industry at -US$1,26m.

(d) 27 million tons for annum of food grains and tubes at – US$225m.

(e) One million tons per annum of inputs in the conning industry at – US$35m.

From the foregoing, the structural steel industry and the production of machines, tools, spare parts and other metal inputs for food processing, building materials, clothing, transport, energy and other industries would need to increase its output over the period by some 20 million tons annual output and would require a cumulative investment of some US$8,000m. It is estimated that attainments of the minimum 1.4 per cent of world industrial output by the year 1990 would require an investment of US$140,000 million. This figure is based on the estimated investment (US$99,000 million) required for the development of major branches of industry shown in Appendix 1, as well as the amount of investment (US$41,000 million) required for the development of the rest of the industrial branches, the processing of raw materials, the range of industrial capacities and services required for self-reliant and self-sustaining development during the decade.

The Lagos Plan of Action lays emphasis on the establishment of critical industries which are essential in bringing about structural change in African economies. The priority industries include:

(a) food and agro-industries;

(b) building industries;

(c) metallurgical industries;

(d) mechanical industries;

(e) forest industries;

(f) energy industries; and

(g) textile industries.

These industries have been given priority because of their deepening and inter-linkage effects. The intention was to establish these industries at national, regional or sub-regional basis. It is the responsibility of African governments to establish which industries can be developed in the short-term on a national or sub-regional basis and which must be developed in the long-term and require sub-regional or regional co-operation.

In all the above sectors, there is wide scope for involving public and private entrepreneurs. A basic characteristic of these sectors is that they promote vertical and horizontal linkages through the utilisation of domestic resources and production of intermediate goods. These sectors constitute the hard core of industries to be implemented in Africa in the next two decades. This strategy has been supported by high level authorities in most countries. African governments have also realised the value of the strategy of self-reliance and self-sustainment. Self-reliance calls for the maximum utilisation of indigenous resources – physical and human – before seeking foreign resources. Self-sustaining development relies on internal as compared to external requirements and stimuli. The attainment of self-reliance pre-supposes institutionalisation and intensification of the integration and co-operation among countries of the same sub-region like the SADCC countries.

The challenge facing the public and private sectors in Africa industrialisation, is to find the necessary suitable investments which will create linkages between production of essential consumer goods at national level and intermediate goods and capital goods at sub-regional level.

This is the core of true development for self-sustained industrialisation. Essentially, the whole process involves the following:

(a) creation of industrial structures with a high degree of linkages and complementarity;

(b) transformation of raw materials into semi-finished and finished goods;

(c) production of goods for mass consumption;

(d) expansion and restructuring of domestic markets by integrating the rural economy and the modern sector;

(e) production and processing of all ranges of food products based on local raw materials; and

(f) production of capital and intermediate goods needed for promotion of intra-African trade.

In order to assist entrepreneurs in the public and private sectors, the following steps, among others, are recommended:

(a) identification of priority industries;

(b) financial assistance;

(c) practical consultancy;

(d) science and technology;

(e) marketing;

(f) industrial training;

(g) research and development;

(h) provision of infrastructure and energy;

(i) support for procurement of materials and equipment; and

(j) provision of basic incentives.

The Lagos Plan of Action, as it stands, needs to be translated into operational programmes for implementation. From a conceptual standpoint, it is impossible for any government to assume the whole task itself. Mobilisation of the latent energy of the people in the public and private sectors is fundamentally an essential task. There is a clear recognition that national initiatives in the implementation of the Lagos Plan of Action have so far been insufficiently rooted in objective conditions or have been submerged by forces external to Africa. There is need for sovereign states in Africa to seize immediately the initiative to set out or to establish programmes for action and then, provide national guidelines consistent with national industrial plans and policies.

Investment Opportunities and the Lagos Plan of Action

There are opportunities in local raw materials processing – lumbering, furniture-making, wood-processing for building and construction industries – for export and also in the manufacture of finished products as well as transportation of these products. In these areas, private enterprises have been playing a dominant role.

The plan offers opportunities for the processing of food products, sugar, cooking oil, tea, coffee, cocoa, fruit canning, meat canning, dairy products, maize milling, rice milling, wheat processing, and many other food crops for local markets and for the development of secondary industries – foundries, metal engineering, pharmaceuticals, textiles, etc. – to feed the basic industries where both public and private investors may have the control. The plan also calls for technology transfer

and adaptation; promotion of intra-African trade; promotion of major undertakings such as iron and steel plants and fertiliser plants; manufacture of machinery, tools and spare parts; and the fostering of export/import trade.

While some of the foregoing activities are still predominantly in the hands of indigenous private hands, in some countries public enterprises have taken up the processing of beverages to illustrate what has and what can done by private enterprises.

Another major element in the Lagos Plan is the formation of joint ventures – domestic joint ventures and international joint ventures – among African countries. The desirability of joint ventures in the implementation of the priority industries is unquestionable. Joint ventures in the Lagos plan of Action are needed to link the exploitation of minerals or other natural resources with production and financial resources mobilisation.

In the years ahead, the economic journey towards the fulfilment of the Lagos Plan of Action makes the development through joint ventures and private enterprises inevitable in all African countries. Consequently, African governments should provide the necessary facilities and incentives to induce private entrepreneurship to enter the fields advocated under the plan.

Issues and Problems

In implementing the Lagos Plan of Action, there are impediments facing entrepreneurs of both sectors. The common issues and problems are:

1. Lack of clearly articulated investment policies with respect to the priority industries in the Lagos Plan of Action.

2. Failure to indicate in the national strategy, economic measures and their direction for implementing the Lagos Plan of Action by both sectors.

3. Communication between public and private entrepreneurs and government authorities with respect to the Lagos Plan has been very peripheral in most African countries.

4. Financing of the priority industries appears to be a serious bottleneck in most African countries. Financing of large and medium-scale industries will certainly have to be undertaken by governments. Indigenous private entrepreneurs in these countries lack capital

resources.

5. In view of the current economic trends in the world today, external support facilities may not be easily available at the required time to implement the priority projects in the plan.

6. Knowledge and requirements of each package of projects identified for implementation need to be assessed in advance. This information is essential to decide the nature of technical assistance to entrepreneurs in both sectors.

7. The implementation of the Lagos Plan of Action presupposes existence of strong motivation and incentives to the entrepreneurs in both sectors. Lack of these may inhibit optimum contribution from entrepreneurs.

8. The consciousness of the indigenous private sector needs to be enhanced. In some countries, concentration has been given to the state of foreign sector only. Very little concern or publicity has been given to the indigenous private sector and its potential.

9. Administrative constraints and excessive bureaucracy in processing foreign exchange applications from private entrepreneurs; approval of industrial premises, allocation of raw materials, spare parts etc, all tend to discourage initiatives in assisting the implementation of the Lagos Plan of Action.

10. Facilities for industrial training within African countries are inadequate.

11. Lack of technical information.

12. Attitude to risk in the private sector: industrial entrepreneurs have tended to be over-cautious in their investment selection. Given the circumstances and environment in which they operate, without even adequate governmental policy support, African entrepreneurs cannot be blamed for being indifferent to the Lagos Plan of Action.

13. Absence of attractive incentive schemes for encouraging competitive exports or complicated rebate procedures for exports discourage entrepreneurs from selling in the local market where their expenses are minimal.

14. Lack of R & D facilities, consultancy services, etc.

For benefit to economies in the long run, efforts should be made to eliminate all of these bottlenecks that can hinder local and foreign participation, and opportunities should be offered to indigenous private entrepreneurs to get involved in the priority industries in the Plan.

National Support Measures Needed

The successful implementation of the Lagos Plan of Action by public and private entrepreneurship will largely depend on the strategies, behaviour and capacities of the agents of industrial production and distribution and incentives offered to them. These agents comprise indigenous private, public and foreign investors. Hence, depending on domestic conditions (that is availability of technical talents, management talents, technical know-how and capital) and utilising the relevant experience of other advanced Third World countries, it is recommended that measures be taken to enable public and private enterprises to undertake and produce the products enumerated in the Appendix. Public utilities must also be involved in this orientation. The logical steps to ensure effective implementation of the Lagos Plan of Action include the following:

(i) ***Public Sector Enterprises***

(a) Set up a co-ordination body such as a Bureau of Public Enterprises for the implementation of the Lagos Plan of Action and other national projects which would be used for evolving a common policy and approach to similar problems encountered in various public enterprises, although they may belong to different ministries.

(b) Promote national consultations among public enterprises on the roles they could play in the adoption of the Lagos programme within the framework of national resources, circumstances and possibilities and its implementation strategies.

(c) Organise study tours to public enterprises in different sectors in such countries as Mexico, India, Brazil, North Korea, South Korea, etc. This would have a significant "demonstration effect", thus countries could learn from successful public enterprises in other developing countries.

(d) Organise national consultations arising out of study tours above, including consideration of technical assistance from enterprises visited, joint ventures etc., on the basis of TCDC framework.

(e) Establish national management institutes of public enterprise managers, or any similar management institutes, to provide training for human resources development at various managerial levels.

(f) Establishment of a permanent national machinery for consultations among public enterprises on the status and progress of the Lagos Plan of Action and the role of public enterprises on performance improvement.

(g) Establishment of multi-national associates of public enterprises operating within the same sector or sub-sector with a view to promoting joint initiatives as indicated above.

(h) Formulation and articulation of clear objectives for public enterprises.

(i) Examination of their pricing policies and their impact on profitability.

(ii) ***Private Sector Enterprises***

(a) Setting up of clear laws providing firms with advantages and incentives.

(b) Carrying out industry studies or pre-feasibility reports for distribution to private investment and financial houses.

(c) Establish a clear private sector portfolio of projects emanating from the Lagos Plan of Action.

(d) Participation of private entrepreneurs in the formulation of priority branches of industries.

(e) Allow the establishment of local management consultancy and problem- solving services.

(f) Arrangements for technology acquisition from foreign sources, guidelines and consultancy support.

(g) Allow private investors access to industrial loans from national development banks;

(h) Develop mutual confidence and co-operation between government and business associations.

(iii) ***Private Foreign Enterprises***

(a) Improvement of industrialisation legislation directive to encourage foreign investors.

(b) Proper review of fiscal incentives to private foreign investors.

(c) Easy access to information related to the Lagos Plan of Action.

Conclusion

The contribution of private and public sectors to the national economy will always depend on the broader national environment, constitutional structures, political ideologies, national investment laws, industrial codes, technical and managerial capabilities, experience of entrepreneurs, availability of capital, technology, bankability of projects and the overall socio-economic context.

The implementation of the Lagos Plan of Action must be a shared responsibility between the public and private sectors. The question of effective entrepreneurship to achieve the objectives of industrial self-sustainment and self-reliance needs to be examined by each African government in terms of potential areas for industrial development contribution and national support measures for improving performance of both public and private entrepreneurship.

Experience indicates that real life situations in African countries are not uniform. Each country has its own peculiarities. There exists a vast difference in their resource endowments. The ideas presented here are only suggestions and are by no means exhaustive. They are not intended to provide solutions to all situations in all African countries. The challenges of the Lagos Plan of Action are of different dimensions. The analysis of public and private entrepreneurship calls for action from the authorities to take immediate steps to get the whole programme off

the ground.

The success of implementing the Lagos Plan of Action hinges on action at national level, especially during the initial stages of project identification and preparation. Action at sub-regional, regional and global levels are simply to reinforce those initiated at the national level. The development of a national industrialisation policy which lays down priorities and targets as well as human, financial and institutional resources should be regarded as a priority exercise.

One obvious conclusion of this review is that there is a need for awareness that the challenges for public and private entrepreneurship in African countries in the context of the Lagos Plan of Action is enormous. In a competitive world economy, it is in the national interest that the
public and private sectors become mutually reinforcing and complementary and should act in concert in the pursuit of development goals and targets of the Lagos Plan of Action.

APPENDIX I

SOME IMPLICATIONS OF THE DEVELOPMENT OF SELECTED PRIORITY PROJECTS IN AFRICA 1980-1990

SUB SECTOR	New Investment 1980-1990 $ million	Addt'nal output processed or manufactured by the year 1990	Additional Manpower Required
FOOD PROCESSING			
Cereals (incl. tubes, etc)			
Oils & fats	225	27m tons	1,000
Fruits & Vegetables	18	6m tons	1,500
Sugar	35	1m tons	1,000
	500	3m tons	4,000
TEXTILE INDUSTRY			
Cotton textiles	5,000	1.44m tons	n/a
FOREST BASED INDUSTRY			
Sawmills, etc	1,260	3.4m M^3 logs 958,000 m^3 particle boards and 136,000 m^3 fibre boards per year	n/a
Furniture	6	563,000 boards	
Pulp & paper	7,500	per yr 3m tons paper	600 300,000
Charcoal	n/a	n/a	n/a
Training in forest industry	150	20 vocational trng cntrs & 1 tech coll.	
BUILDING MATERIAL			
Cement	6,500		n/a
Structural steel	1,800	40m tons	n/a
Glass	450	6m tons 7m sq m.	n/a
METALS			
Iron & steel	8,000		100,000
Alumina	1,300	30m tons	2,250
Aluminium	900	1.8m tons 300,000 tons	3,400

3

MEASURES FOR ENHANCING THE PERFORMANCE OF PUBLIC AND PRIVATE ENTERPRISES

G. E. A. Lardner

Background

As with other aspects of development and economic growth, the significance of entrepreneurship is only now gradually getting some attention. Economic theory as taught in economically developed countries as well as in Africa speaks mostly of savings, capital investment and the investor and of (mass) markets as prime movers in or preconditions for these processes everywhere. If the Africa region is facing a crisis today this should, in a large part, be credited to the misconceptions and unreasonable expectations to which the use of these and other shorthand expressions have given rise. These misconceptions and expectations have also profoundly affected debates, policies and measures within Africa on the roles of public and private enterprises which, for mysterious reasons are seen as mutually exclusive and contraposed, presumably because in developed, domestic (mass) market economy countries they are frequently regarded in that light by critics. For equally mysterious reasons African policy-makers and planners tend to try to evaluate public enterprise not in terms of contemporary reality but of some vague metropolitan model on which public enterprises were based in the years before independence when some of them were first set up.

As shall be seen later, much of the debate about public versus private enterprise in African countries today is unreal. It assumes a considerable private sector in which entrepreneurs operate competitively in reasonably free (mass) market conditions, a great many of them are capable of taking on the initiation and organisation of a wide variety and large number of medium-scale agricultural industrial and service projects distributed in certain patterns (sectoral and geographical) across the economy as a whole. These capabilities of the private sector subconsciously assume the widespread presence of foreign transnational corporations in the economy or they assume that good indigenous traders also make good indigenous industrials at short notice. On the other hand, any exclusive believer in state enterprise must reckon with the attempts of centrally planned

economies to mitigate some of the worst effects of total reliance on this kind of entrepreneurship.

The sectoral pattern of distribution of entrepreneurship is important because it has become increasingly clear that acceleration, diversification and self-sustenance of any economy calls for a CORE or motor which drives the economy forward. It is to this motor, as we explain later, that scarce resources are allocated and it is this motor that is protected as much as possible against general fluctuations in the economy. For the motor to work effectively it must be connected by deliberately designed links to other critical areas of the economy. Efforts to develop and allocate factor inputs, including entrepreneurship, or to induce them to shift, must obviously relate to the motor as linkages and the sectors and sub-sectors which it is designed to drive forward.

The geographical pattern of distribution of entrepreneurship (as well as of other factors-inputs) should reflect, of course, the dominance of the rural sector in Africa as well as the need for the development of rural townships and of cities in such a way as to optimise the special aspect of development and economic growth processes. The importance of the entrepreneurial function in Africa can be looked at from both a quantitative and qualitative viewpoint. For example, a medium-sized African country of say, 15 million population and fairly well endowed with natural resources (which can be extended, extracted, converted into industrial raw materials, some traded with neighbouring countries for other complementary raw materials), which wishes to accelerate the process of industrialisation, will require a minimum of 15,000 to 20,000 industrial entrepreneurs from a relatively large public or private enterprises sector engaged in natural resources exploration, retraction etc. to small forms or partnerships producing wires, screws, nails and bolts etc. The offer of all sorts of inducements to foreign private enterprise is unlikely to attract as much as a thousand of them so that, willy nilly, the rest must be nationals. The situation in the future is likely to be more precarious than in the past because even the present supply of foreign entrepreneurship may decline as economically developed countries intensify their efforts to shift their economies on to a new, more complete and sophisticated technological base where it is expected to remain safe from attack by Third World countries for at least several decades. What this will mean is first, that the type of factor inputs which they will be producing will be much more unsuitable for Africa than even the present supply and secondly, that there is unlikely to be significant marginal surpluses to meet the needs of the rest of the world. Policy-makers and planners in Africa have no alternative but to concentrate attention on promoting the development and expansion of African entrepreneurship, both public and private.

The qualitative aspect of entrepreneurship can be seen in the tendency for the small corps of private indigenous and foreign enterprises in the modern sector to be

concentrated on the production of services rather than on the production of goods. In the industrial sector, apart from such peripheral manufacturing as we mentioned earlier, most entrepreneurial activities seem to centre around assembly packaging, mixing, bottling etc., i.e. on the final non-manufacturing stage of industrial production.

A look at the Lagos Plan of Action and the Final Act of Lagos, as well as at the emerging programme for the Industrial Development Decade for Africa, brings out the very different scope and character of the challenges to entrepreneurship that confront the region in the fields, for example, of natural resources exploration and evaluation, mining, forestry, oil, gas and coal, hydropower; transport and communications; heavy and light engineering; building and construction; chemicals and petrochemicals; information and educational technologies; R and D; pharmaceuticals; food production processing and storage etc. How are small inexperienced, largely non-technical, commerce-oriented, relatively isolated, indigenous entrepreneurs to be induced and equipped to take up burdens of this kind? How are existing public enterprises to be enabled to face such challenges? By what criteria are their performances to be judged?

The socio-economic policies followed by many African countries long after independence were fundamentally against structural change, self-reliance and self-sustainment. It was, for example, formally held (and is still believed) that the North/South link would not only continue indefinitely by that it could sustain quite unreasonable burdens. Twenty-five developed countries it was assumed, could indefinitely provide an expanding supply of factor inputs (entrepreneurship, management, skilled manpower or procurement, production and distribution, raw materials, including energy machines implements, tools and spare parts; technology international physical infrastructure, institutionalised services, etc.) to meet the growing need of the rest of the world (i.e. 120 developing countries, plus China, plus C.M.E.A. states, plus Mediterranean Europe) for their accelerated developments has not yet been fully appreciated by policy-makers and planners in most of Africa. Since economically advanced countries do not generally plan the production of factor inputs for any other purpose than to meet their own current and anticipated needs, it must be clear that the rest of the world is fighting other marginal supplies from economically developed countries.

As these countries export less than 20 per cent of their total annual production to the rest of the world, and this includes consumer goods, the struggle is probably over not more than nine per cent of the total production of the 25 countries!

The inevitably and equally absurd expectation was that the rest of the world could pay for these increasing volumes and value of imports by competitive exports of more coffee, cocoa, tea, fibres, oilseed, iron-ore, diamonds, uranium, oil and

natural gas; semi-manufactured and manufactured goods. The main obstacle to the development of entrepreneurship is, therefore solid economic policy. Since entrepreneurship is probably the most important of at least eight major factor inputs, the pace and pattern of its development in a planned economy must surely depend on where policy-makers, planners and other principal factors agree that they want to take their country within the foreseeable future and on what principal means they wish to use. The visualisation of this state of development is not only the realistic basis of planning, it is also the only means of imposing discipline on resource generation, allocation and use. Quite clearly such an approach requires the identification and design of a CORE or motor which will drive the economy forward, as well as of deliberately planned and realised linkages between the motor and other component parts of the economy. Without these, it is difficult to see what criteria should be applied to entrepreneurial resources development and the character of support services and incentive systems that need to be devised to bring entrepreneurs into and sustain them in play. National development and economic growth plans are thus spelled out in terms of the long range picture, the CORE and linkages - not the other way round as seems common in Africa today.

It should be noted that the foregoing framework is essential for all other factor inputs and not for entrepreneurship alone. Three illustrations may help. The first concerns the bulk of national development policies and plans which seem, at least superficially, to be indiscriminately growth-oriented so that the production of biscuits, cheap alcohol, pomade and lozenges appear to be treated as of equal importance with the production of building and construction materials, and engineering spare parts for domestic industry etc. Since socio-economic policy-makers and planners place great reliance on imported factor inputs this means that biscuits, alcohol, pomade and lozenges tend to be import intensive.

A second illustration, also connected with a growth orientation is the low level of priority given in most national policies and plans to the exploration, evaluation, management and conversion of natural resources into agricultural and industrial raw materials. There cannot be more than a handful of countries in Africa that can claim to have at the disposal of policy-makers and planners, adequate information on soils, water and forest resources, mineral and energy resources. In effect, therefore, policy-makers and planners do not have requisite information on the physical basis of planning physical growth. Worse still, very few African countries are capable of mining even a few hundred tons of the millions of tons of minerals which they know exist and which they need for accelerated industrialisation.

A third example is the meaningless demand repeatedly made by Africans during the past twenty years for easier access to Western technology without any idea or plan for the particular uses to which such technology is to be put. All this is

carried on without the recognition that at any time more than 70 per cent of technologies in use are not subject to industrial property rights.

With such a framework as we have suggested, the question of which part of the programme in pursuit of the long range objective is in public or private domain ceases to be ideological. It depends on who is best able objectively to carry out this or that part at a particular time. Not only is the allocation between public and private flexible, but the relations between them must be considered in symbiotic and not in conflict terms. The notion that the Africa region has to choose permanently between public and private enterprise should be discarded once and for all. African policy-makers and planners must accept that their business is to solve Africa's contemporary problems, not those of developed countries.

The first great step towards the development of indigenous public and private enterprise would seem to be, the adoption of a new approach to policy-making and planning. This approach would include a 20 to 30 years' perspective of national development and economic growth; it would give priority in planning, programming and resource generation and allocation to the CORE or motor which it is intended should drive the economy forward, and it would provide for the deliberate creation of intra-sectoral and inter-sectoral linkages. It would recognise the vital role of entrepreneurship and would make a point of emphasising the complimentary and symbiotic character of relations between indigenous public and private enterprise in Africa. This approach would give some indication of the priority areas of production and support systems that policy-makers and planners on the one hand, and entrepreneurs on the other, would work out together; it would provide a long-term framework for corporate planning, project design and implementation and risk-taking etc. But more than anything, would be the advantage of open commitment of the principal actors on measurable targets of overwhelming importance for national survival.

Numerous examples exists of the effect of this consensus and commitment, e.g. Japan, Korea, India, Brazil, post-war Germany, the countries of Eastern Europe, to name only a few. There is really no substitute for the visualised image of the future, for the consensus of that image for commitment and on how and how soon to achieve it. For example, in respect of public enterprise, it is easy to make the mistake of believing that managerial and technical excellence (and even entrepreneurial talent) can be substituted for the image, the consensus and commitment. They are complimentary, not substitutive. It is also not often realised that it is these three (image, consensus, commitment) that underpin self-discipline that boards and management of public enterprises need to exercise and that the most elaborately concerned and designed accountability systems are largely useless without these attributes.

With regard to the behaviour of the private sector, one has only to note the frequency with which Third World economists and critics point to the dominance of the sector's pre-occupation with short-term survival of these economies. This is often contrasted with Japan where, in the spirit of ferocious business competition it can be seen that large firms are predominantly concerned with long-term strategies and overall national goals, worked out with the government than with profit accumulation.

Practical Measures to Enhance Public Enterprise Performance

The first measure to enhance the performance of public enterprises is clearly the review at national level of the existing pattern of public enterprises in the light of the major challenges the country faces, either in its efforts to implement the Lagos Plan of Action and the Final Act, or in the light of other major challenges. For example, the frontiers of science and technology, labelled bio-technology, now threaten to substitute factory production in developed countries of a succession of tropical agricultural products which would wipe out the export markets for those products on which many African countries depend solely or heavily. These countries are faced with an abrupt challenge to shift their economies from their existing based to new bases as fast as possible. This will call for public action and entrepreneurship of a kind unfamiliar to the Africa region.

This national review, already under way in several countries should identify areas where public enterprise is unnecessary, areas where public enterprise badly needs reform and re-organisation and improvement, and areas where new public entrepreneurial activity is required. It should not be surprising that one measure is the cutting off of direct links between public enterprise and the civil service, not merely because the latter can offer little entrepreneurial inspiration or managerial understanding and support to the former but also because of the frequency of migration of senior civil servants from one ministry or indeed, one from one post to another.

The second measure is abandonment of the practice of appointing ministers to the chairmanship of public enterprises boards. Not only is there a rapidity of turnover of persons holding particular ministerial appointments, these appointments are usually made for reasons which have little or no connection with the entrepreneurial and managerial relations between the ministry and its associated public enterprises. What is required is a board composed of experienced entrepreneurs and business managers appointed for long enough periods to institute and carry out, to some degree, programmes for structural transformation broadly approved by the cabinet. Efforts should be made to avoid reproducing at board level the frequent changes which occur at cabinet and senior civil service levels.

The boards should be empowered to co-opt, for particular purposes and periods, nationals with specialised knowledge or experience relevant to the enterprises interests. These could be staff members of universities or polytechnics, research institutes, representatives of other public, or even private, enterprises with which the enterprise has to work closely. Membership could include those from medium- and small-scale enterprises linked to the enterprise by sub-contracting, or other relationships.

A third measure would be to set up a public enterprise audit unit responsible through the cabinet to parliament for checking up on the efficiency of specified and quantified objectives and targets resources availability, use and time horizons. The effectiveness of such a watchdog would clearly depend on the quality and commitment of the nationals appointed to such units. The leaders of such units should be free to employ the services of highly qualified and/or experienced persons (whether national or foreign) for particular purposes.

At the enterprise level, measures to be taken should include the examination of existing objectives and targets, and therefore of existing constitutions, organisational structures and procedures. Criteria of evaluating performance could then be reviewed and revised.

When we come to high level management staff these could be divided into two groups: those with potential for learning entrepreneurial operations and those without. For the latter, the only answer is re-assignment (without loss of benefits) to jobs elsewhere which suit their particular background. For the former, it is usual to prescribe advanced management courses frequently offered in developed market economy countries.

There is little doubt that such courses are useful but they are of less value than often thought. In the first place, management is rooted in the historical, socio-cultural and socio-economic and technological background from which it is derived and only a small part of it can really be transferred from one society to another when – as between Western Europe and the United States – there are broad similarities in these features. The Harvard Business School has recently withdrawn its activities in Western Europe in recognition of this. The kind of high level management course for senior staff of public enterprises should go through, should be of contemporary relevance. They should, for example, be based on African conditions, and deal in contemporary problems. It would be unrealistic to envisage a senior management course which ignores the Lagos Plan of Action of the Industrial Development Decade for Africa. These comments are intended merely to indicate some lines of advance which means more thorough and detailed work by working groups, including senior business managers in substantial enterprises,

specialists in business education from Africa and abroad and members of public enterprise staff.

Finally, one must come to the issue of criteria of performance. For us, this rests on that, sometimes changing, pattern of objectives and targets that governments set (or should set clearly and concretely) for public enterprises. In Africa, conditions today would include: the accelerated development of badly needed factor inputs over and beyond the enterprises' own needs. In view of the factor input situation and its international setting described earlier; this ought to be the most important function; obviously such factor input would relate primarily to the core in the early stages; and the development of indigenous medium- and small-scale enterprises within the sector.

The question of the extent to which public enterprises are to be saddled with social responsibilities would depend on the extent to which, in the judgment of management and the board, this would adversely affect the enterprise in its pursuit of the above purposes. It is these purposes that would form the basis of corporate planning, resource allocation and use, and evaluation of performance.

Another step towards improvement would be courses for middle management, including study visits and attachment, possibly based on Japanese techniques. In addition, there are now known to be an increasing number of unusually successful public enterprise in newly industrialising, as well as developing countries (inside and outside the African region), which would be used as demonstration centres even though not many are engaged in industrial production. All arrangements for improvement courses must include other study visits or audio-visuals aids or both.

Improving Private Indigenous Enterprises

As argued earlier, the adaptation of policies and planning which provide a credible measure of certainty of objectives and targets should be of particular value to indigenous enterprises. But even more valuable would be the extent of consultation between policy-makers and planners on the one hand, and indigenous entrepreneurs and managers on the other, on what areas of the Plan (particularly of the CORE or motor) they would be expected to implement; on their capacities and capabilities to do so; on the nature and scope of support services required as the Plan develops. Consultation will also be needed on changes in the Plan; on bottlenecks and their causes; on troubleshooting etc. The support government gives to the private sector will depend on the extent of its recognition as an indigenous enterprise (both public and private and both working together) that is, willy nilly, going to implement any national development plan.

The organisation of indigenous enterprises, for purposes of consultation etc, cannot be assumed to be satisfied by the existence of chambers of commerce and so on. We have in mind here, organisation by specific areas of production or service. Chambers of commerce may be useful for discussion of very broad issues but they tend to be dominated by the larger indigenous enterprises, few of whom are really engaged in production related to the CORE or motor of the Plan.

Support services should not be based on casual, irresponsible, ready-to-use assumptions that all the indigenous private sector needs is "capital" (meaning money) and incentives (meaning large financial profits). In Africa, most governments are in trouble because they unwisely allowed their advisers to persuade them to believe and to act as if these were exclusively true. Support services must be carefully tailored to meet needs evaluated by research and consultation.

Furthermore, they must be designed to avoid two major weaknesses: their concentration on a few large towns and their built-in bias against small business. Attempts are being made in a few countries to monitor this problem of small business. Policy-makers and planners, put emphasis on personal and company savings to finance investment, i.e. capital formation but in the absence of domestic capital goods and service industries, local money simply cannot finance significant local physical capital formation. National income accountants are simply deceiving government when they point to (money) saving ratios. Thus, when governments take steps to control imports (including those of capital goods and services), they may unwittingly be stifling small business (the training ground for indigenous entrepreneurship, artisans and technicians, etc.) if they fail to make specific provision for them. And, after all, small businesses are the real direct generators of employment and expanders of domestic markets.

It is possible to imagine a host of problems of small businesses, e.g. where a holder of surplus funds wishes to invest in industry, where does he or she go for information and advice on procurement of raw materials, equipment selection; labour supply, market outlets; site selection and development; suitable accounting systems; materials and product testing; standardisation and quality control. In the absence of adequate consultancy services or business clinics, small businesses are unlikely to survive long enough to play their essential roles. Our concern, however, is with those businesses engaged in production activities related to the CORE. We have suggested that one of the most important functions reflecting the symbiotic relationship of public and private enterprises is the contribution the former make to the development of the latter.

Incentives

The unwavering belief in the power of local currencies has also led to a misunderstanding of the meaning of incentives. This is especially striking in the farming sectors of Africa. There is, first, confusion between the significance of monetary and non-monetary incentives. When colonial systems of export produce buying and marketing was changed, the arrangements by which the producers/ buyers ensured the supply of incentive goods at the right time in the production cycle became dislocated from the production system. Distribution of incentive goods was left, in many countries, to local merchants. Increases in the price of agricultural products is not by itself a sufficient incentive to a farmer living miles from the nearest selling point, without some guarantee of the availability of incentive goods at reasonable prices. Thus, while governments are taking drastic measures to curb inflation and balance of payments problems, they are also likely to be worsening the situation. Today, however, this would not be enough. We need to consider not price incentives but incentive systems which would include the supply of incentive goods and services to the individual, and the farming community. Prominent among such incentives, it is now clear, are guarantees that surplus farm products will be taken off the farmers (as in economically advanced countries) and that someone will underpin experimental changes in inputs or production or both. These considerations apply to some extent in the industrial sector and it is here that government procurement policies and public/private enterprise linkage become important.

4

OWNERSHIP PATTERNS AND PUBLIC ENTERPRISES PERFORMANCE

Udo Udo-Aka

> There is a growing recognition on the part of developing countries that performance requirements (for transnational corporations) should be realistic and that it is preferable to concentrate on a few key requirements instead of proliferating requirements, some of which may be incompatible with one another.[19]

Introduction

At the centre of on-going global economic debate is the crucial and rather knotty issue of international resource flows in the forms of capital, goods, skills, and technology. This has recently been re-emphasised by the President of the World Bank as follows:

> "... clearly much remains to be done to ensure greater levels of private and public capital flows to developing countries. They are essential to the restoration of the development momentum which was so decisively broken by the global recession and to the long-term prospects of the developing economies."

Joint ventures play a major role in facilitating the flow of such resources. Though the development of extra-territorial enterprises has generated much controversy over the years, they have generally been accepted as necessary evils in the economic and social development of nations. With the recognition of the importance of joint ventures goes the increasing concern about their performance

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19 A. W. Clausen, former President, The World Bank, Address to the board of governors of The World Bank, Washington D. C., September 24, 1984, p.11

in the environments where they operate. Where the joint venture partner is a public enterprise, the concern about performance is generally heightened.

In the continuous search for strategies for promoting orderly and rapid development of African countries, some African governments (including Kenya) started to study seriously the possibility of divesting themselves of certain enterprises, while other countries (including Nigeria) intensified efforts in joint ventures through the instrumentality of public enterprises. In spite of their increasing popularity with Third World Countries, joint ventures have come under attacks and their performance is being questioned. Uppermost on the list of questions being raised is the extent to which public enterprise joint ventures satisfy the needs of the partners. What, in fact, are the performance requirements for such enterprises? The purpose of this chapter is to discuss the effect, if any, of ownership patterns on enterprise performance, with particular reference to public enterprise joint ventures.

Background

Public enterprises, particularly in Third World countries, are not known for their excellent performance. They have generally not lived up to public expectations as effective instruments of development and modernisation. Following an incisive analysis of the performance of African public enterprises, the World Bank in 1981 stated as follows:[20]

> "In many African countries the parastatals present the most urgent problems of public sector performance. African governments should not only examine ways in which public sector organisations can be operated more efficiently, but should also examine the possibility of placing greater reliance on the private sector."

Since truth is often bitter, the call by the World Bank Report for a virtual dismantling of African public enterprises was not well received in the Continent. African reaction was predictably negative, depending upon the ideological posture of different countries. In fact, at a meeting of African technocrats and business

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20 Report of ECA/OAU Regional Conference on the role of Public Sector in National and Regional Development, Addis Ababa, Ethiopia, 22-27 Nov 1982, p.6

leaders in 1982, the OAU Secretariat described the World Bank views on this subject as "outrageous".[21]

Many African countries however seem to have had second thoughts on the role of the private sector in the development process. Recent developments about privatisation around the world seem to have reinforced and supported the World Bank for the development and greater reliance on private sector initiatives for paid development. The attitudes of African countries certainly vary according to their history, culture and ideological persuasion.

Reasons for Joint Ventures

For the purpose of this discussion, a joint venture is an arrangement between enterprises of different nationalities carrying out a business in a country other than their own with equity shared between the foreign owners and government agencies or parastatals. Enterprise performance cannot be evaluated in a vacuum but on the basis of stated objectives. The question is on what criteria is the performance of a joint venture enterprise assessed? Regardless of the composition of a joint venture, its primary ingredient is the mutuality of interest in common economic activity where the partners pool their resources to achieve mutual objectives. The interests of joint ventures' partners may be mutual but not necessarily identical. The way the performance of such an enterprise is assessed would depend on the respective interests of the partners.

Generally speaking, joint ventures are often embarked on for the following reasons:[22]

- secure access of foreign markets, either for raw materials or finished goods;
- maintain operational control;
- enhance opportunities for local enterprises;

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21 R.S. Raveed, "State Enterprise-Multinational Corporation Joint Ventures: How Well Do They Meet Both Partners' Needs?" in Management International Review, No.1, 1983, p. 47

22 Richard D Robinson, "Ownership Across National Frontiers", Industrial Management Review, Fall 1969, pp 41-62

- obtain knowledge of the host country;
- maximise net capital flows;
- maximise skill and technology transfer;
- maximise foreign exchange earnings;
- secure local manpower;
- enhance, employment creation;
- identify with local interest to enhance public image;
- reduce risk of expropriation; and
- obtain favourable government treatment.

It is a matter of common knowledge that one of the most controversial subjects in international business is the handling of ownership of overseas affiliates. The degree of ownership in a joint venture may be determined by existing laws in the host country as well as by the reasons for embarking on such a venture in the first place. In spite of the mutuality of interests of joint ventures partners, each partner or group of them adopts a strategy which would ensure that its own needs are met. Each partner must consider the attractiveness of investment opportunities offered by the venture. In this connection Robinson[23] has suggested the use of a cost/benefit analysis approach to the evaluation of Joint Ventures to ensure achievement of partners' objectives. It is suggested that, if properly evaluated, joint ventures should be embarked on only when perceived benefits exceed anticipated cost, noting, however, that contributions of resources have a time frame. For instance, some contributions may be one-time, while others may continue throughout the life of the venture. Regardless of percentage of ownership, each partner to a joint venture seeks to maximise his benefits from the venture by minimising his risk, maximising his control and maintaining his flexibility or keeping his options open at all times.

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23 Udo Udo-Aka, "Promoting Regional Co-operation Through Joint Ventures with Public Enterprises: The Nigerian Experience". ECA/OAU Regional Conference, op, cit, p.6

Public Ownership and Enterprise Performance

African public enterprises are notorious for their poor performance, at least, according to government pronouncements and newspaper headlines all over the continent. When such enterprises go into partnership with foreign companies, joint ventures are invariably handicapped from inception. The new venture has first to overcome the stigma of its parent. However, experience shows that more often than not, new joint venture enterprises are created as separate entities, sometimes with a local version of the foreign partner's name or with a name not easily associated with those of their owners.

The way the joint venture idea is initiated is bound to affect its conception and performance. The venture idea can be initiated as follows:

(i) Government, either
- host country, or
- foreign country;

(ii) Private Investor, either
- local, or
- foreign;

(iii) External Impetus.

Investment decision in joint ventures with public enterprises may be based on political expediency and other considerations than may be the case with a private sector enterprise. There are examples of public enterprise joint ventures established because government functionaries were impressed by the size and complexity of such enterprises seen during visits to other countries.

The selection of the foreign partner to a joint venture affects performance and is crucial to the success of the enterprise. How, for instance, does an African government functionary ascertain the reputation, public image, and integrity of a prospective joint venture partner. Where the instrumentality of a foreign government is relied upon for the selection of a joint venture partner, the interest of the African government agency may not be guaranteed.

Another aspect of the problem of public sector ownership of joint ventures which affects enterprise performance is the determination of type, size and location of industries. Where such decisions are based (and often they are) on political expediency, economic and technical feasibility are thrown overboard and such enterprises are doomed before they even start. In such circumstances, the more costly and prestigious the projects, the more attractive they are to the decision-maker.

The instability of African political leadership also affects the performance of public enterprise joint ventures. Successive leadership tends to initiate its own projects rather than complete projects initiated by the predecessors. The lack of leadership continuity affects project execution and enterprise performance. The result is an array of uncompleted projects scattered all over the countries.

A related aspect of the problem of public ownership of joint ventures is that of appointment of key managerial personnel for the enterprise. The tendency to appoint key personnel not necessarily on merit is the bane of public enterprises in most Third World countries. Much has been written on this subject and need not be repeated here. It is enough to say that the tendency for such key personnel to rise and fall with their benefactors seriously affects the management performance of public enterprise joint ventures.

Where joint ventures are owned by partners from different countries, ownership complexity tends to complicate the problems of performance. The characteristics of the various firms, based on their different home countries, may impede co-operative strategies for achieving mutual objectives of the joint venture. This sometimes results in negative relationship between the partners.

Nationality of Joint Venture Partners

The source of nationality of joint venture partners reflects the historical trade pattern of the colonial relationship of most Third World countries. In an earlier paper[24], this author asserted that "environment from which a joint venture partner originates affects the overall operational performance of joint venture enterprises". Parent-country groups differ in their strategies for overseas operations.[25] For instance, a joint venture with Japanese firms will tend to have a higher percentage of fully manufactured imports (in completely knocked down forms) relative to local production. Partners from Japan and Third World countries are known to prefer less concentrated and more competitive industries. Firms from the United States and Europe, on the other hand prefer industries with high concentration.

Management practice characteristics vary and reflect the environment of the parent country groups. Those characteristics affect the performance of the joint venture, as the parent company seeks to influence decision-making in the venture. Here is where the issue of transferability or universal applicability of management models comes in. As reported elsewhere, the foreign partner often provides the top

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24 D.J. Leeraw, Journal of International Business Studies, Spring/Summer, 1983, p. 15

25 Udo Udo-Aka, ECA/OAU Regional Conference, op.cit p. 5

leadership of joint venture enterprises, particularly in the early years of such enterprise.[26]

The impact of the nationality of the parent company on decision-making in overseas operations is gaining increasing research interest. Mallory and others have compared the characteristic tendencies in management styles of different countries and their possible impact on the performance of overseas subsidiaries. They found that the decision-making process in American firms combine informal interaction with formalised standard procedures. For maximum involvement and contribution, American firms are known to make use of formally constituted task forces which terminate after the decision has been made. British management styles on the other hand, are known to emphasise more personal trust in subordinates which requires more conformity with custom and practice sufficiently known and accepted. British firms make more use of formal standing committees, resulting in a more institutionalised decision-making.

The familiarity of local employees with the management styles in the countries of origin of joint ventures partners, their level in the organisations and their expertise, will determine the extent of their involvement in decision-making in the enterprise. The performance of joint ventures is more easily assessed and the interest of the host government is better protected by the involvement of experienced local personnel in decision-making.

Joint Venture Negotiations and Performance

Entering into a joint venture with firms from other countries involves more risks than the host countries often realise. There is as much uncertainty for the host partner as there is for the foreign partner. The experience and expertise brought to the negotiation of a joint venture set the tone for its performance. Foreign partners take joint venture negotiations seriously because they know that the success of the venture depends on the skills with which the venture is negotiated. For many African countries, public enterprise joint ventures fail on the negotiating table, and are therefore doomed from the beginning.

More often than not, African government functionaries negotiating joint venture projects are younger, less experienced and extroverted, and this can create situational constraints. Depending on the complexity of the project envisaged, the young inexperienced negotiator can be overwhelmed and may easily agree to what he/she does not understand, rather than expose his/her ignorance. The

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26 Geoffrey R Mallory, et al "Implanted Decision-Making" Journal of Management Studies, Organisational Analysis Research Unit, University of Bradford, April 1983, p. 191

inexperienced but extroverted negotiator, on the other hand, will ask relevant questions as a defence mechanism to cover up his ignorance. The point to be emphasised here is that the status, relationship, experience, technical capability and credibility of joint venture negotiators enhance the rapport among negotiators and affect the outcome and performance of public enterprise joint ventures.

The operational strategy and general direction of a joint venture are determined at the negotiation stage. Because of the lack of expertise on the part of the host country, both partners to the venture are not equally involved in the detailed formulation of policies which guide the operation of the enterprise. The partner with greater comparative advantage tends to dominate the negotiation and fully exploit the ignorance or limitations of the other partner. There is enough evidence to show that performance requirements have sometimes been evaded or conveniently omitted in many public enterprise joint ventures negotiations. This contributes in no small measure to the unsatisfactory performance of such ventures in the public sector.

Public enterprise joint ventures in many African countries also suffer from a lack of co-ordinated national strategy for joint venture organisations. Different ministries initiate and negotiate joint ventures without the involvement of experts from other ministries. Where the right hand does not know what the left hand does, the body is bound to, and in fact often suffers from, confusion.

What is apparent from the foregoing observations is the pervading effect of the dearth of skills and experienced manpower. This calls for:

- a rapid development of multi-disciplinary corps of local experts whose expertise can be brought to bear during joint ventures negotiations;
- increasing use of African experts regardless of nationality as consultants in joint venture negotiations; and
- active involvement of AAPAM secretariat as a clearing-house for supply of consultants for joint venture negotiations.

Public enterprise joint ventures are haunted by the stereotypes associated with the poor performance of public sector organisations. These joint ventures have been stereotyped and are described as:

- being susceptible to greater governmental control as the foreign partner bends over backwards to please government functionaries concerned;

- getting dragged into local politics and being diverted from operational objectives of the enterprise;
- applying different managerial styles, creating conflict;
- frequently changing objectives;
- being indecisive (using an inordinate amount of time to reach decisions);
- being inefficient;
- being incompetent.

The question that is often asked regarding the performance of public enterprise joint ventures is, "who really benefits from the venture?" The easiest answer is "it all depends". It depends on:

- the realistic expectations of the partners;
- the resources (including expertise) brought into the negotiation, planning and execution of the project;
- the demonstration of absolute good faith by the partners;
- the level of control over the operations of the enterprise.

There are stereotypes also associated with the role of the foreign partner in the overall performance of public enterprise joint ventures. The foreign partner, with his comparative technical advantage, knows how to negotiate for his benefit from the venture. Invariably, at least, in the short run, the foreign partner derives more immediate and substantial benefits from the venture, beginning with the supply of machinery and equipment. Even if the project eventually does not take off as is often the case, the foreign partner does not have too much to lose.

Often, the foreign partner's cash contribution to the equity of the enterprise is low. His equity contribution is a capitalization of his know-how or patents. The foreign partner thus often shares in the equity value of his know-how for an indefinite period in addition to receiving royalty payments for a limited period. Whereas in some Third World countries, knowledge is not regarded as property which can be capitalised as part of the host partner's contribution.

Recent Nigerian Experience

In addition to and as a result of on-going investigations into the management of public sector organisations in Nigeria, the most glaring and regular headlines in the country's dailies relate to the privatisation of public enterprises. For quite some time, a segment of the organised private sector has called for privatisation of major public enterprises as a way of improving the performance of such enterprises on the one hand and reducing active involvement of government in economic activities on the other. This concern has also been forcefully articulated at many conferences in the last few years. Since the beginning of the present Military Administration in the country, different state governments have either re-organised or scrapped some of their enterprises. The Federal Government, for its part, has set up a study group to advise on the privatisation of public enterprises.

Privatisation is rapidly emerging as a household word in Nigeria. On 19 November 1984, the *National Concord*, a powerful, privately owned national daily, stunned the nation with its editorial captioned "Don't Privatise Government Companies". The nation was stunned because the plea came from the most unlikely sources. The paper questioned the motive of the proponents of privatisation, and not the thought-provoking issues which the government must not overlook in making a decision on privatisation. The paper rightly asked:

- Who is in a position to buy these shares as assets once they are up for grabs?
- Will the nation be better off for it?
- What effect will this have on the provision of welfare-related services?

The paper concluded that "government participation in the economy serves to regulate the greed of business for the upliftment and good of the common man." The open public debate on this subject had thus been forcefully launched. The last word has not yet been heard.

Conclusion

In this brief discussion, the background and objectives of public enterprise joint ventures have been highlighted. The impact of public ownership of enterprises and the nationality of joint ventures' partners on the performance of joint ventures have been discussed. It has been emphasised that foreign partners tend to derive more from joint ventures with public enterprises because of the comparative technical advantage over the host country partner. The need to develop a corps of local experts to negotiate, plan and manage joint venture enterprises has been emphasised.

Ideally, joint ventures should allow greater diversity of talents and experiences to co-exist within the organisation. When managers are equally familiar with different aspects of enterprise operations, technologies and areas of expertise, their collective experience will help enhance the performance of the enterprise. Unfortunately, African countries do not have people with the skills in most areas of critical developmental needs to work in the numerous public sector enterprises. The problem of manpower shortage is reflected in the appointment of inexperienced managerial personnel to public enterprises. When experienced civil servants are posted to manage public enterprises, they bring to such enterprise conservatism and caution which impede rather than enhance enterprise performance.

The performance of public sector joint ventures is affected by the type of foreign partner selected for the venture. In a number of cases, foreign firms which are just starting foreign operations on an exploratory basis, with no previous experience, are selected. Foreign partners vary from novices to the well experienced, and from fly-by-night to the highly reputable. Because of the range of characteristics of prospective foreign partners, care must be exercised in their selection. The nature of the environment in which public joint ventures operate also affects their performance. In order for a joint venture to achieve the mutual objectives of the owners, the partners must develop mutual trust, act in complete good faith and treat each other as equal, without exhibiting a position of superiority or an inferiority complex.

5

MEASURES FOR ENHANCING THE PERFORMANCE OF PUBLIC AND PRIVATE ENTERPRISES

I. D. Ewen-Tohma

Introduction

This chapter will examine:

(a) the development of public utility and private enterprises;

(b) objectives of public utility and private enterprises; and

(c) problems faced by public utility and private enterprises.

This will be done with specific reference to Ghana and will be based on practical experience.

The Development of Public Utility and Private Enterprises

Private enterprises include both indigenous and foreign private enterprises, and joint government and private enterprises, irrespective of the shareholding, since in almost all such joint ventures, management is ceded to the private interest.

A public enterprise or public corporation is a financially self-supporting legal body set up by legislation to provide goods or services on a commercial basis for the country. Supervisory control is exercised by the ministry through a board of directors appointed by the Minister/Secretary.

A public utility is also a public corporation set up to provide a basic service in which private entrepreneurs will not invest, partly on account of the heavy capital requirement. Such service enterprises are among others, electricity, gas, water and sewerage, sanitation, postal etc.

At independence, the few public utility enterprises that existed were departments attached to parent ministries, with very limited operational coverage, mainly in the urban areas, and particularly within the capitals.

Private enterprises consisted of foreign companies and indigenous private enterprises. The foreign companies were made up of a few multinationals and other firms of Middle Eastern origin, also located in the urban areas, or at the source of supply of raw materials. The indigenous enterprises were mostly small-scale family shops and a host of hawkers (petty traders or very small retailers) engaged only in commerce. The indigenous private enterprises acted as agents for the foreign enterprises, while the hawkers were also agents to both foreign and indigenous enterprises. Indigenous entrepreneurs in industry were unheard of, while peasant or indigenous efforts dominated the agricultural sector.

The need to expand the socio-economic base of the country became very urgent after independence. Parastatals were set up at a frantic rate to help in this socio-economic development, including the conversion of such public utility departments that existed, into fully fledged statutory corporations, and were expanded to operate in most of the large towns, with extension services to nearby villages, in line with the government's rural development drive. Apart from accelerating the economic development of the country, parastatals were set up to promote socio-economic development. In order to expand the private sector, appropriate legislation was enacted to speed up and facilitate the formation of companies and other enterprises. Investment codes, offering attractive investment climate were enacted to attract foreign capital in specified sectors of the economy. The result of the policy of accelerated industrialisation and indigenisation is that there is at least one parastatal in almost every economic activity. As regards public utilities, they have grown bigger in size than any other parastatals, on account of the social services they have to perform throughout the country. With growth come the problems of management, finance, infrastructure and other logistics. In the private sector in Ghana, the private family enterprise is predominant. The comparatively few indigenous limited liability companies are nothing more than conversions from family private enterprises.

There is no doubt that the future roles to be played by both public utility and private enterprises will assume greater dimensions if the standard of living of the citizens is raised. The most effective ways to achieve this will be to adopt measures for enhancing the performance of both public and private enterprises. With regard to indigenous private enterprises, government must necessarily shift from the private family enterprises type to a wider shareholding type of private enterprise, to introduce an element of more entrepreneurship, marshalling more capital and widening operational capability.

Objectives of Public Utility and Private Enterprises

Public utility enterprises, like all public corporations, are set up by legislation, usually by acts of parliament or by decrees under military regimes, with objectives, inter alia, to:

(a) provide utility services, which are basic necessities, at reasonable prices;

(b) provide employment opportunities to the citizens; and

(c) provide infrastructural facilities in their areas of operation.

This multiplicity of objectives have tended to create complex management problems and sometimes have adversely affected the achievement of the main objective of the enterprise, i.e. the provision of utility services for everyone in society.

Private enterprises are established by individuals or some legal bodies, under:

(a) Company Code;
(b) Partnership Act; and
(c) Business Name.

There is only one objective of private enterprise, that is to make a return on the capital invested. There is no ambiguity in the objectives of a private enterprise, and consequently, operations are all geared towards achieving that one objective. This is not to say that private enterprises do not have some social responsibilities, such as taking an interest in the socio-economic development of their locations.

On account of the mainly social service role of the public utility enterprises, government has priced their services far below the cost of production. The deficit in operation and capital expenditure is made good by government in the form of monthly or quarterly subventions, financed through government revenue. Any demand in increased subventions by public utility enterprises invariably leads to increases in government taxation.

Private enterprises are financed exclusively from:

- within its own operations;
- loans and overdrafts from banks; and
- increase in share capital.

The bulk of funds of private enterprises are loans and overdrafts from the banks.

Problems faced by Public Utility and Private Enterprises

Public Utilities

There is no doubt that the speed with which public utilities have been set up, has created many and complex management problems. An attempt has been made to group the major problems into the three broad management resource areas, viz: Finance, Administration, Machinery and Infrastructure.

Financial Problems

(i) Inadequate capitalization, or under-capitalization: most often, new enterprises are required to start operation with loans and overdrafts.

(ii) Lack of foreign exchange: this affects ability to procure raw materials, spares and equipment for efficient operations. In most cases, enterprises are allocated foreign exchange very late in the budget year, rendering efficient programming of operations useless.

(iii) Difficulty in raising working capital: due to their largely social role, public enterprises generally are not creditworthy and are not readily granted bank facilities.

(iv) Fixing uneconomic prices far below the costs of providing services and the failure of government to give adequate subventions to make up for the deficit.

(v) Poor accounts, accounting policies and Management Information Systems. Difficulty in preparing accounts and absence of accounting policies have made it difficult to institute management reporting procedures. The valuation of assets has never been undertaken and the balance sheets do not reflect current values.

(vi) Poor inventory control resulting in unnecessary stock levels, leading to obsolescence, pilfering, waste and tying down of funds.

(vii) Poor procurement policy: the purchasing of wrong items with inflated prices and over-estimated quantities, and in some cases under political pressure, create cash shortage.

(viii) Carrying out other social services for which government does not grant re-imbursement.

(ix) Inability to collect debts owed by other government agencies.

Administration

(i) unclear policy directives: the enterprises pursue other social services on account of political expediency and therefore cannot properly be evaluated for performance;

(ii) cumbersome organisation structure: centralisation and unnecessary reporting levels, both within and without the enterprise;

(iii) inefficient management and a lack of skilled personal;

(iv) political interference in making frequent changes in top management positions and members of governing boards;

(v) carrying of redundant labour which enterprises are not allowed to shed on account of political expediency;

(vi) lack of autonomy and discretion of management;

(vii) unattractive and disincentive remuneration;

(i) ineffective supervision: ministries do not have the right expertise to supervise public enterprises.

Machinery and Infrastructure

(i) Inadequate initial feasibility studies or project studies, to ascertain the financial implication and correct technology. This partly causes excess plant capacity and idle facilities.

(ii) Poor maintenance of equipment due partly to a lack of spare parts and a lack of skilled manpower.

(iii) Lack of logistic support/infrastructure: enterprises often find it difficult to obtain the services of other public enterprises. The

absence of inter-enterprise co-operation is often the cause of lack of logistics support.

(iv) Wrong location or siting of enterprise, due partly to political expediency and partly to improper project planning.

Problems Facing Private Enterprises

The problems faced by private enterprises are not as numerous as those of public utilities, on account of their singular profit motive. Whatever problems there are arise directly as a result of the general economic problems facing the country, and over which management have no control.

Financial

(i) Inability to obtain sufficient foreign exchange for inputs.

(ii) Depletion of working capital during slack periods often leads to a lack of input, and consequently, operations are below economic capacity levels; and

(iii) Price fixing does not take account of idle facilities and provision for asset replacement.

Personnel Administration

(i) Poor managerial competence, especially in indigenous private enterprises.

(ii) Lack of skilled personnel; and

(iii) Government policy on redundant labour worsens the working capital position of the private enterprise.

Machinery and Infrastructure

Again, private enterprise does not have most of the problems of the public enterprises on account of the autonomy of management to make decisions and

achieve results. The major problem is the constraint by the general economic situation in the country.

Measures for Enhancing Public Utility and Private Enterprises Performance

The problems facing public utilities should point to the measures that are needed to enhance their performance and these are examined below:

Public Utilities

Financial

(i) Adequate capitalization: Public utilities must be properly capitalised to match the base assets. This can be done through government grants over a period of years, to improve the finance of the enterprise, or government can also float stocks to the public to raise funds for purposes of capitalization.

(ii) Issuing of adequate import licence to procure input materials and spare parts for efficient operations. If, for reasons of general foreign exchange constraints, sufficient foreign exchange cannot be made available, at least the little that will be granted should be made available before the preparation of the next budget of the enterprise to permit efficient planning of operations.

(iii) Provision of adequate working capital: The poor working capital position is due to fixing of uneconomic prices, which could be below the cost of production, and at a time when government is unable to subvent the enterprises. Government should rather determine the subsidy level, if at all, and allow enterprises to price services to cover the deficits and make provision for asset replacement and contingencies against cost increases in the short-term.

(iv) Recruitment of qualified accounting personnel: to keep accurate accounts; the writing up of accounting manuals and the preparation of regular control reports for management require the services of professionally qualified accounting staff.

(v) Institution of effective control over procurement and inventory. The functions of procurement and inventory control are inter-related.

Poor inventory controls lead to overstocking, pilfering, tying down of capital, excessive purchases and cash shortage.

(vi) Government should re-imburse enterprises with the cost of carrying out social services undertaken in addition to their normal operations. For this purpose, government should create a fund under a supervising agency to meet the social services.

(vii) Government should not shield any agency from paying debts owed to other enterprises. In most cases these agencies are the biggest debtors. Government should authorise the treasury officer to freeze amounts provided for in the budgets of debtor department's and agencies and pay these to utility enterprises on presentation of invoices; and

(viii) Corporate planning or long range budgeting in enterprises should be adopted to serve as a measure of the growth rate over the period.

Administration

(i) The policy directives with regard to enterprise objectives and targets, should be unambiguously clear and achievable. This will ensure accountability.

(ii) The administration of public utilities should be decentralised to improve accountability.

(iii) The organisational structure of the enterprise should be without unnecessary reporting levels of authority to ensure quick decision-making and accountability.

(iv) Effective recruitment and training schemes should be established and steps should be taken to hire and train suitable personnel.

(v) Appointments to top management positions and boards should be based on merit - skills, experience, knowledge, proven record of success, etc.

(vi) Performance targets should be set and management given a free hand to work towards these targets. Lack of autonomy of management and the inability to set achievable targets have compromised accountability.

(vii) Enterprises should be allowed to determine their optimum manpower requirement for efficient performance and any excess labour should either be shed or government should pay the social cost involved.

(viii) Public utilities should be allowed to pay competitive remunerations and incentives in order to attract suitable personnel. The generally better performance of private enterprises is as a result of the recruitment of high calibre personnel and better working conditions offered to them.

(ix) Labour remuneration should be based on an hourly rate and not on monthly salaries, to improve labour productivity.

Machinery and Infrastructure

(i) Technical audits should be conducted in enterprises to determine the technical facilities and ascertain their suitability.

In most cases, plant machinery and infrastructure have been installed consequent upon improper project planning, resulting in the importation of wrong technology, excess capacity and necessary repairs and replacement costs. Detailed technical audits should reveal inconsistencies in the technical facilities which affect operations. A well-staffed supervisory agency should be capable of undertaking these studies periodically.

(ii) A comprehensive maintenance programme should be prepared and executed accordingly, to avoid unnecessary machine breakdown. An effective maintenance programme depends largely on the availability of spare parts which in turn depend on the foreign exchange available.

(iii) Inter-enterprise co-operation should ensure smooth operations. This is particularly relevant in a mix economy operating with scarce resources, and the tendency is for public enterprises to discriminate against each other in the provision of goods and services. A supervisory agency should be an appropriate instrument for this co-operation.

Measures to Enhance the Performance of Private Enterprises

Measures to improve private enterprise performance are influenced entirely by the general economic situation in the country.

Financial

(i) Subject to the availability of foreign exchange resources, private enterprises should be allocated adequate amounts to procure inputs and spare parts. In any case, allocations should be made before the beginning of the budget year, to allow for meaningful planning;

(ii) Private enterprise should be allowed a free hand by government to employ measures to safeguard working capital in periods of utilisation of production facilities, e.g. as regards the retention of redundant labour; and

(iii) Price-fixing should take account of periods of under-utilisation of capacity or of slack periods, when fixed expenses must still be incurred.

Administration

(i) Government directives on shedding redundant labour should be reviewed and left to the union and management to resolve.

(ii) The ability to hire suitable personnel is constrained by the ability of the country to plan and develop its manpower requirement.

(iii) Managerial expertise can be improved through management development programmes organised by Management Institutes.

Concluding Remarks

Global inflation is undoubtedly having a very severe effect on the operations of both public utility and private enterprises, but more on public utility enterprises, since they cannot easily pass on the inflationary prices. Governments are finding it increasingly difficult now to increase the size of resources allocated to the public sector in order to subsidise the cost of services to consumers. There is now a very strong opinion that consumers must bear the full cost of providing these services, plus a provision for expansion. Political interference, especially in appointments and procurement in these public utilities must cease, in order to ensure efficient management, as is the case in the private sectors. The extent to which this is achieved will depend on the political will of the government, and thus will determine the success or failure of the measures for enhancing the performance of both public utility and private enterprises.

SECTION II

PUBLIC ENTERPRISE PERFORMANCE

6

THE PERFORMANCE OF STATE CAPITALISTS AND STATE CAPITALISM: AN INQUIRY INTO THE CONDITIONS OF PUBLIC ENTERPRISES IN AFRICA

M. J. Balogun

Introduction

In December 1973, AAPAM organised an Inter-African Public Administration Seminar in Ibadan on the theme of Management of Public Enterprises. Scholarly papers were presented. The insights and experiences of practitioners were discussed. Resolutions were passed and the delegates went in their different directions hoping that, at last, the ailing public enterprises in Africa were about to undergo the long-delayed surgical operations. No sooner had the final speeches been delivered in Ibadan than the various enterprises went back to conducting business as usual. Unfortunately for them, the environments in which they operate are dynamic. Today, we are not discussing what remedies to apply to rejuvenate the public enterprises; we are discussing the different methods of terminating their life. We have recently stumbled on "privatisation" as the most effective technique of enthusiasm. But should we not approach the task before us with greater caution? Before we take the drastic, politically explosive, and probably, irreversible decision such as "privatisation", should we not ask what serious efforts were made to apply the known medications to our long-suffering patient? As a matter of fact, was any honest attempt ever made to tackle the problems facing public enterprises?

This chapter starts by discussing the role of public enterprises in national development. It then proceeds to examine the arguments being advanced against public enterprises, particularly as regards their overall performance and productivity. These arguments are discussed against the option of "privatisation". The third part of the paper focuses on the problems confronting public enterprises, while the fourth suggests new policy options aimed at overcoming the major obstacles to efficiency and productivity.

The Role of Public Enterprises in National Development

The earliest impetus for the development of most countries in Africa was supplied by the public sector, and particularly by public enterprises variously referred to as "statutory bodies", state enterprises, parastatal and quasi-autonomous organisations. In recent times, however, changes in the structure of African economies have brought to the fore the equally important role of the private sector in national development. The serious managerial problems confronting public enterprise undertakings have further shifted the attention of governments and taxpayers to the private sector. With an increasing number of young, educated and achievement-oriented persons relinquishing government appointments, it was no longer valid to cite the lack of an indigenous middle class as an obstacle to the development of the private sector.

The underlying assumption in this chapter is that both the public and the private sectors have a role to play in the development of African economies. By the same token, both are subject to limitations. The managerial problems currently facing public enterprises notwithstanding, African countries should resist the temptation to"privatise" or "de-nationalise" the strategic sectors of their economies. At the same time, each country should ensure that the public sector does not over-extend itself. As a matter of principle, there is an optimum limit beyond which governments should not go. To exceed this limit is to encourage the shift toward institutional decay, and promote a general misallocation resources.

The Size of Public Enterprise

The dominant role of the public sector is a recurring theme in the discussions on the development of African countries. Each government in Africa has its fingers in every pie. Its interests range from banking and insurance, through oil exploration, air and surface transportation, to agriculture, iron and steel, hotels and tourism. Governments own and run educational institutions, research establishments, health care delivery systems, ranches, breweries, newspapers and television stations. The forerunners of the present day public enterprises are the agricultural commodity boards, the marketing boards, and the industrial development corporations. These were soon joined by the public utility undertakings, banks and insurance companies, manufacturing establishments, merchandise firms, regulatory agencies, and institutions responsible for education and training, health and social welfare and disaster relief services.

The number of public enterprises tends to be on the increase. In 1960, there were only 50 statutory corporations and state-owned companies in Nigeria. By 1982,

the number had risen to eight hundred.[27] In 1980, there were no more than 25 statutory bodies in Malawi.[28] Barely four years later, the number went up to thirty-five. In 1982, there were 60 parastatal bodies and six nationwide co-operatives in Kenya. This number does not include government-owned companies and the subsidiaries of parastatals.[29]

The enhanced position of public enterprises in the economies of African countries reflects their role as agents of development. In many of these countries, the major export commodities and a sizeable proportion of items for domestic consumption are produced and/or distributed by public enterprises.

The rapid increase in the number of public enterprises is itself evidence of the general expansion in the scope of government. The macro-economic indicators in Table 6.1 attest to the crucial position of the public sector in the economies of African states. On average, the GDP of selected African countries grew modestly between 1970 and 1979.

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27 L. Adamokekun, Public Administration: a Nigerian and Comparative Perspective, Longman, London, 1983, p. 3

28 Report of the Committee on Standardisation of Conditions of Service in Statutory Bodies

29 Jeggan C Senghor, "Development Administration: Relating Theory to Objective Conditions in Public Administration Systems in Africa, P. Anyang Nyongo, (Ed) State and Society in Africa

Table 6.1 Macro-economic Indicators for fast and slow-growing African countries in the 1970s (ratios as percentages)

Country	Average Growth Rate of GDP 1970-79	Ratio of taxes to GDP 1973-77	Ratio of Govt. Expend-iture to GDP 1973-77	Gross domestic invest-ment to GDP 1973-77	Increm-ental capital output ration (ICOR)	Growth of exports (volume) 1970-79
High growth countries	6.6	15.8	21.0	21.0	3.2	2.5
Mauritius	8.2	18.6	23.8	24.0(a)	2.9	-----
Ivory Coast	6.7	20.6	24.0	19.0	2.8	5.2
Kenya	6.5	15.3	20.6	21.0	3.1	-0.5
Malawi	6.3	11.3	21.3	22.0	3.4	4.6
Cameroon	5.4	13.0(b)	15.3(c)	14.0	3.7	0.5
Low-growth countries	1.0	15.4	15.4	14.3	16.2	-1.7
Senegal	2.5	17.7(d)	19.4	15.0	6.0	-0.8
Sierra	1.6	15.0	23.7	13.0	8.2	-6.5
Leone	1.8	21.2(c)	24.9(c)	19.0	10.6	2.3
Liberia	-0.1	10.4	18.1	11.0	-	-7.2
Ghana	-0.1	12.9	13.7	16.0	-	3.1
Upper Volta	0.3	15.2(c)	19.7(c)	12.0	40.0	-1.0
Madagascar						

Note: (a) 1970-75 (d) 1975-78
(b) 1974-77 (e) 1972-73
(c) 1974-78

Source: The World Bank, Accelerated Development in Sub-Saharan African, an Agenda for Action, Washington D.C., 1981, p. 36

In contrast, the rate of taxation is very high. Moreover, the increased tax yield went into financing an increasing number of government-sponsored projects. If the figures presented in Table 5.1 provide a reliable guide, the overall results of increasing government intervention is declining productivity and inefficient utilisation of resources.

One African country which has gone far in the area of state intervention is Nigeria. By a curious admixture of circumstances, the country has kept its distance from socialism, while at the same time pushing the nostrum of state intervention. The Fourth National Development Plan, for instance, envisages an aggregate capital formation of Naira 82.0 billion between 1981 and 1985. The public sector alone is responsible for an investment of N70.5 billion, and the private sector, a mere N11.5 billion.

What is significant about the Nigerian public sector's contribution is not just the size of the investment programme assigned to it, but the enhanced role of public enterprises. The bulk of the N70.5 billion (to be specific, N40 billion) is expected to be allocated to the economic sub-sector of the public sector's capital development programme. In any case, by focusing on economic activities and extending the boundaries of public enterprise, the Fourth Development Plan is merely reflecting the priorities of the previous plans, particularly, the Third Development Plan (see Table 6.2).

Public enterprises in Africa are also big employers of labour. Table 6.3 shows that between 1979 and 1980, parastatal bodies in Kenya recorded a higher rate of increase in personnel than central government. If we stretch our definition of "public enterprise" to cover enterprises wholly or largely owned by government, the rate of increase in employment in Kenya's parastatals would be even higher than what is reflected in Table 6.3. It should be noted that while all areas of government recorded increased rates of employment between 1979 and 1980, the private sector as a whole registered a decrease of 2.4 per cent.[30]

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30 Republic of Kenya, Economic Survey 1981, Nairobi, May 1981 p. 61

Table 6.2: Share of Various Sub-Sectors in the Nigerian Public Sector's Investment Programme: Third and Fourth Development Plans

Sub-Sector	Third Plan 1975-80	Percentage Share – Fourth Plan 1981-85
1.Economic sub-sector	61.5	57.5
2. Social sub-sector	11.6	17.5
3. Environmental	13.9	16.2
4. Administration	13.0	8.8
TOTAL	100.0	100.0

Source: Federal Republic of Nigeria, Fourth National Development Plan, 1981-85, Vol.1, National Planning Office, Lagos, January 1981, p. 49.

Table 6.3: Wage Employment in the Public Sector in Kenya: 1977-1980

	1977	1978	1979	1980	Annual % charge 1979-80
(a) Central	157,200	168,900	197,300		8.9
Government	170,000	168,000	170,000	14,000	9.9
(b) Parastatal bodies				187,000	
(c) Majority control	17,000	20,200	23,400		28.2
by	32,100	32,900	33,800	30,000	17.2
the Public Sector	100		100	39,600	-
(d) Local government				100	
(e) Others					
TOTAL	**376,400**	**390,000**	**424,700**	**471,500**	**11.0**

Source: Republic of Kenya, Economic Survey 1981, Nairobi, May 1981, p. 55

In 1973, Nigeria's public sector offered employment to a total of 0.9 million individuals. As Table 6.4 shows, the parastatals and the teaching service employed a higher number of people than the federal and state civil services combined. Moreover, the services classified as "others" included enterprises owned wholly or partially by the federal and state governments.

It is not unusual for parastatals to over-emphasise their employment-generating role. At a time when its accounts were in the red, the former Eastern Nigeria Development Corporation noted how the number on its payroll had increased from 8,000 in 1961-62 to 14,000 the following year. It then went on to add rather proudly:

> "This number (14,000) is significant in that it is indicative of the corporation's role in the solution of unemployment problem in the country."[31]

Table 6.4 Actual Public Sector Employment as at September 1973: classified by type of service

Service	Actual No. Employed	Percentage of Total
Federal civil service	121,953	13.52
State civil services (combined)	136,530	15.14
Local government bodies	80,500	8.93
Parastatals (including universities)	148,845	18.19
Teaching service	146,000	16.50
Others	250,000	27.72
TOTAL	**901,828**	**100.00**

Source: Third National Development Plan 1975-80, Vol. I, Central Planning Office, Lagos, p. 371

31 Eight Annual Report of the Eastern Nigeria Development Corporation 1962-63, Enugu

One immediate result of the increase in personnel is the constant rise in the wage bills of public enterprises. Kenya again provides an illustration. In Table 6.5, the wage bills of the central government (for the period 1970-80) appear to be higher than those of the "parastatal bodies". Nonetheless, if we take into account the payments made by enterprises in which the government owned the majority of the shares, the wage bills of the public enterprises are likely to be higher than those of the central government.

The soaring wage bill is only one indication of the expanding role of public enterprises. Another evidence is the general increase in expenditure – both recurrent and capital. Reference has been made in an earlier paragraph to the gigantic capital development programme for which Nigeria's public enterprise were held responsible under the Third and the Fourth National Development Plans. In many other countries, public enterprises expend huge amounts of financial resources in the efforts to achieve their divergent objectives.

Table 6.5 Total Wage Payments by the Private and Public Sectors in Kenya 1977-1980

K£ million

Sector	1977	1978	1979	1980
1. Private Sector (Total)	210.0	233.5	274.3	326.8
2. Public Sector (Total)	221.4	249.5	289.2	337.3
(a) Central	99.6	112.9	137.1	153.6
Government	96.2	105.7	116.1	136.6
(b) Parastatal Bodies	10.2	13.5	16.8	22.5
(c) Majority Control				
by	15.6	17.4	19.1	27.5
Public Sector	0.1	-	0.1	0.1
(d) Local government				
(e) Others				

Source: Economic Survey 1981, op. cit, p. 59

For example, in Zimbabwe the total recurrent expenditure of the central government in 1982 was Z$918.3 million. In the same year, a single parastatal, the Zimbabwe Railways, incurred an operating expenditure of Z$153.3 million (representing 16.7 per cent of the entire central government budget).[32] The rate of increase in recurrent expenditure is even more illuminating. Whereas the central government's recurrent expenditure rose from Z$517.9 million in 1975 to Z$918.3 million in 1982 (representing an annual average increase of 11.04 pre cent), Zimbabwe Railways alone recorded an annual average increase of 20.28 per cent in recurrent expenditure over the same period.[33]

The Argument for an Enlarged Public Enterprise

That public enterprises occupy a strategic position in the economies of African countries is beyond dispute. The moot point is whether the expanded scope and influence of the enterprises are justified. The protagonists of state intervention

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32 Republic of Zimbabwe, quarterly Digest of Statistics, Central Statistical Office, Harare, September 1983, See in particular pp 53 & 59

33 The rates of increase were computed from figures supplied in the Quarterly Digest of Statistics, 1982, ibid

adduce three major arguments in support of their position. First, they maintain that, at least in Africa, state intervention through public enterprises is an historic fact. Secondly, it is argued that the continued participation of state enterprises in certain activities is both a political and an economic necessity. Thirdly, and on ideological grounds, state intervention serves to combat social inequality and the injustice inherent in capitalist modes of production and distribution.

There is no doubt that governments featured prominently in the efforts to transform the agrarian, subsistence economies of many African societies into money economies.

In many of these societies, the earliest network of roads and railway lines were constructed by government agencies rather than private entrepreneurs. The agricultural commodity boards, the marketing boards, and the development corporations (all of which played and immense part in the development of African societies) were established and administered by colonial governments. And the attainment of independence in most African countries did not witness a deliberate slowing down of the pace of state intervention. If anything, the succeeding government has formulated development plans which emphasise the role of state agencies.

If state intervention is a historical fact, is also an economically wise move? After all, African governments are not obliged to preserve and maintain a system which does not fulfil some objective function. A welfare economics school is of the view that state intervention is justified in circumstances where the system of perfect competition has broken down. In other words, when the free, perfectly competitive market suffers cardiac arrest, the government is obliged to step in to achieve the basic social and economic objectives.[34]

Under what conditions could the competitive system be said to have broken down? The free enterprise system which tends to be over-celebrated by conservative economists may fail to operate as intended in circumstances where:

- there is a divergence between social benefits and social costs;
- allocative/investment decisions are based on scarcity to the exclusion of the concept of "public goods";

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34 Akin Ogunpola and Oladeji Oji, "Market Failures and Government Intervention in the Nigerian Economy", Quarterly Journal of Administration, Vol. IX. No. 4, July 1975, pp. 423-429

- the production function harbours technical indivisibilities and increasing returns to scale (thereby promoting monopolies and/or monopolistic tendencies); and
- market forces are simply incapable of performing a political welfare function or fulfilling a "pareto optima" condition.

In a perfect competitive market, the marginal utility of a product or service to a consumer must be equal to the marginal cost he is prepared to incur. However, the rationality of the consumer's decision depends on his/her access to information – particularly information on the "opportunity costs" of satisfying one demand rather than others. Rarely does the consumer possess complete information. At the level of an entire society, structural imperfections in the market (typified by bottlenecks in the distribution network) may conspire with information blockage and render the free enterprise mechanism impotent. In most cases, a shrewd, profit-maximising businessman would, with the aid of a well-organised information system, move in buyer's market and sell in the seller's market. The consequences for society are clear. Let us take, for instance, the profit-maximising decision of a firm to retrench its employees when business is slack. The social costs of unemployment are higher than the immediate benefits accruing to the firm. Similarity, if education and health services were to be sold in a free market, society as a whole would be the loser since it would tend to be populated by illiterate individuals and invalids respectively.

The lack of harmony between the marginal cost of the profit-oriented entrepreneur and the marginal cost of the society is not the only evidence of market failure. The tendency of private firms to hinge their allocative and investment decisions on the concept of scarcity is itself a threat to the effective functioning of private enterprise. Knowing full well that the chances of increasing his return are better in a seller's market, our shrewd businessman would tend to look for opportunities to "corner" the market. If he does not restrict his own output, he might try other means to create artificial scarcity. The best (or shall we say the worst) examples are the "hoarders" and "profiteers" who have given many African governments and their "price control" agencies many sleepless nights. In desperation, many of these governments have established public enterprises with functions ranging from the running of abattoirs and slaughterhouses to the retailing of cigarettes and matches.

The profit-maximising businessman may not have to resort to hoarding and profiteering to increase the returns on his investment. The production function may do the job for him, particularly if the production function harbours technical indivisibilities. This is the case with enterprises in which it is possible to take advantage of large-scale production. In such enterprises, average cost is likely to decline over time while the opportunities to make profit constantly increase.

Ademola Oyejide and Afolabi Soyode have revealed that in Nigeria's insurance industry, it was possible to make huge profits in return for low investments.[35] The majority of the companies studied by Oyejide and Soyode were those with paid-up capital in the range of 25,000 and 50,000. Only a few recorded paid-up capital above 100,000. Yet the companies with modest capital outlays were making an average profit of between 30 and 100 per cent. If the public utilities (water, electricity, and transport services) were in private hands and managed on 'economic' (free market) lines, the technical indivisibilities of their production functions would also guarantee their owners almost limitless profits. The proponents of state intervention are quick to point out that if the free enterprise system could not prevent firms from reaping where they did not sow, at least the windfall should go collectively rather than to private individuals. As an arm of the state, public enterprises could be relied upon to temper the aggressive profit drive of private monopolies with social welfare considerations.

The proponents of state intervention further argue that even if private enterprise is able to correct the market imperfections, it would still be incapable of moving society to a 'pareto optimal' position desired by the government. In other words, the free enterprise mechanism might be economically efficient, but it could not take society beyond the threshold of economies, or maximise a given welfare function. Examples of 'pareto-optimal' issues that could not be settled in the market place (by the pricing mechanism) are those of indigenisation of national economies, national security, national honour and prestige, and social justice and equality. Therefore, at least, on pareto-optimal grounds, the intervention of the state in many areas can be justified. In fact, without a massive state intervention in the acquisition of the share capital of foreign-owned companies, the Nigerian Government's plan to 'indigenise' the economy would have been frustrated.[36]

The search for a pareto-optimal position probably justified state intervention in areas such as banking, insurance, petroleum exploration and civil aviation. One may even stretch the argument a little bit and justify state intervention in sports, arts and culture. However, is the indiscriminate and purposeless inauguration of state enterprises in the immediate, economic, and long-term political interest of African countries? Another school of welfare economies advocates not just an embargo on the creation of new state enterprises but the 'privatisation' of existing institutions – in effect, a 'roll-back' policy. The opponents of state intervention

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35 T. Ademola Oyejide and Afoabi Soyode, "Capital and Earnings in the Insurance Industry: The Case of Nigeria", Quarterly Journal of Administration, Vol. IX, No. 4, July 1975

36 See O Teriba, "Financing Indigenisation", Quarterly Journal of Administration, Vol. IX, No 2, January 1975, p. 174

have rested their case mainly on the deplorable performance of public enterprises. An examination of their point of view is the subject of the next section.

Public Enterprises: The Case for Privatisation

The case for the de-nationalisation of public enterprises in Africa is predicated on the serious economic crises confronting the continent and on the prevailing belief that public enterprises might have contributed in no small way to the crisis. Public enterprises are increasingly perceived as consumers of resources rather than as producers of wealth. Students of 'supply side' economies are indeed emphatic in their advocacy of private initiative. Goran Hyden, for example, argues:

> "If state ownership reduces the scope for capital accumulation because of declining productivity as the case may be in many countries, governments end up weaker in terms of controlling the destiny of their country."[37]

There is no doubt that over the past twenty years, the economies of African countries have fared badly. Table 5.6 shows that when compared with Asia, the Middle East and North Africa, the African region recorded low growth rates between 1960 and 1983. What is worse, Africa's growth rates have been on a downward trend over the 23-year period covered by the data.

Table 6.6 GDP Growth Rates in Asia, Middle East and North Africa, and Africa: 1960 - 1983

GDP Growth Rates (average annual per cent change)

	1960-73	1973-79	1980	1981	1982	1983
Asia	5.9	5.2	6.3	5.2	5.6	5.1
Middle East & North Africa	5.2	3.0	4.2	-2.4	5.5	2.0
Africa	3.5	2.1	1.3	1.2	0.5	-0.1

Source: World Development Report 1984, OUP/World Bank, Washington D.C. 1984, p.11

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37 Goran Hyden, "Discovering the resource potential of the ecology of public management", M. J. Balogun (Ed) Ecology of Public Administration in Africa, AAPAM

In view of the general decline in internally generated wealth, the majority of African countries have had to plug budget deficits with external loans and technical assistance. Table 5.7 and 5.8 present the increasing debt burdens in Africa south of the Sahara between 1971 and 1980 and in two regions of Africa between 1975 and 1984.

The responsibility for the mounting external debt devolves squarely on the public sector – the civil services and the parastatal organisations, to be exact. In its report for 1984, the World Bank attributed the increasing budget deficits in many African countries not only to the decline of commodity prices, but also to:

> ... a massive wage bill, stemming from an oversized civil service ... Moreover, parastatal enterprises continued to impose a serious net drain on public resources.[38]

Table 6.7: Total External Debt of African Countries South of the Sahara (Outstanding and Disbursed) 1971-1980 (US$ Million)

Type of Debt	1971	1973	1975	1976
Private, non-guaranteed	607.0	963.0	1,344.4	1,400.7
Public and Publicly Guaranteed	6,162.3	9,193.1	13,667.4	16,292.1
TOTAL	**6,769.3**	**10,156.1**	**15,011.8**	**17,692.8**

Type of Debt	1977	1978	1979	1980
Private, non-guaranteed	1,427.9	1,508.6	1,458.6	2,033.0
Public and Publicly Guaranteed	20,261.9	26,434.7	33,098.0	38,394.6
TOTAL	**21,689.8**	**27,948.3**	**34,556.6**	**40,427.6**

Source: World Debt Tables, World Bank, Washington D.C., December, 1981, p.2.

38 The World Bank Annual Report 1984, Washington DC, 1984, p. 86

Table 6.8 Total IBRD and IDA Lending to Borrowers in East and West Africa **1975-1985 (US$ Million)**

Sub-region						
	Annual average 1975-79	1980	1981	1982	1983	1984
East Africa	575.1	815.0	874.1	714.6	1,129.8	1,186.6
West Africa	466.4	731.6	938.3	1,086.9	664.2	1,181.7

Source: The World Bank Annual Report 1984, Washington D.C. Table 4-1 and 4-2

How did Africa get into this situation? In specific terms, since when did the state apparatus become a millstone tied round the necks of the peoples of Africa? As we shall discover later on, public enterprises, which are the bane of African economies today, were among the principal agents of development. A cursory glance at their recent records reveals how badly they have slipped. If we confine our attention to the operating account of Zimbabwe Railways (presented in Table 6.9) we are likely to go away with the impression that this enterprise had been doing well. If, however, we go further to examine the overall income and expenditure account, we shall certainly come to a different conclusion. (see Table 6.10).

The Nigerian Railway corporation was in no better shape than its Zimbabwe equivalent. From an operating ratio (i.e. the ratio of operating cost to revenue) of 81.2 in 1955/56 fiscal year, the corporation crept up to an operating ratio of 166.8 in 1972/73.[39]

In the area of communications, Nigeria's Posts and Telecommunications Department (P & T) was nick-named "Palaver and Trouble".

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39 Goke Olanrewaju, "Rail Traffic Administration", M. J. Balogun (Ed) Managerial Efficiency in the Public Sector, University of Ife Press Ltd, Ile Ife, 1980, p. 209

> "Scarcely a week goes by without the principal newspapers carrying several stories of communications distress. These range from telegrams of invitation for an interview arriving several days after the interview; letters taking three to four days from Lagos Island to Mainland, Apapa or Surulere (all which several parties participate including the N.B.C. (Nigerian Broadcasting Corporation)...."[40]

Nigerians, never short of a nickname for non-performing agencies, frequently referred to the National Electric Power Authority (NEPA) as "Never Expect Power at all". Of course, some Nigerians were prepared to give the organisation the benefit of the doubt: they interpreted NEPA to mean "Never Expect Power at all (times)".

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40 Jermey J. White, "Posts and Telecommunication Services in Nigeria", in Balogun, ibid

TABLE 6.9 Zimbabwe Railways' Operating Account, 1968-1982 (Thousand Zimbabwe Dollars)

Year Ending 30 June	Operating Revenue	Operating Expenditure	Operating Surplus
1968	52,586	40,651	11,935
1969	57,401	38,162	19,239
1970	61,359	41,727	19,632
1971	61,280	43,900	17,380
1972	65,776	46,624	19,152
1973	63,692	51,437	12,255
1974	63,003	51,437	12,255
1975	71,666	63,183	6,339
1976	78,754	72,736	6,018
1977	83,273	82,171	1,102
1978	81,322	80,772	550
1979	102,841	89,400	13,441
1980	128,244	115,130	13,114
1981	153,969	133,692	20,277
1982	172,758	153,327	16,431

Source: Zimbabwe, Quarterly Digest Statistical, Central Statistical Office, Harare, September, 1983, p.53

TABLE 6.10 Total Income and Expenditure of Zimbabwe Railways; 1968-1982

(1,000s in Zimbabwe Dollars)

Year Ending 30 June	Total Revenue	Total Expenditure	Net Surplus/ Deficit
1968	56,930	59,110	-2,180
1969	61,561	58,572	12,989
1970	65,512	63,834	11,678
1971	65,285	66,961	-1,676
1972	69,895	71,821	-10,996
1973	68,194	79,140	-19,139
1974	67,375	86,514	-21,226
1975	76,607	97,833	-29,119
1976	84,291	113,410	-36,912
1977	88,738	125,650	-35,697
1978	86,706	122,403	-28,965
1979	108,053	137,018	32,151
1980	134,546	166,697	-32,681
1981	162,198	194,879	-39,730
1982	182,729	122,459	16,431

Source: Zimbabwe, Quarterly Digest of Statistics, ibid, p. 53

In many other African countries, the same story of woes are told when the performances of the various public utilities (road, rail, and air transport companies, water and sewage undertakings etc.) are being reviewed.

And the Eastern Nigeria Development Corporation, which was so proud of its achievement as an employer of labour, had little to show in terms of financial performance. Its aggregate and trading accounts for the period 1960-1963 were mostly in the red (Table 6.11).

TABLE 6.11 Eastern Nigeria Development Corporation: Aggregate and Trading

Results, 1960/61 - 1962/63

Year	Trading Result	Aggregate (Result (1)
1960-61	+ £144,766 (Profit)	-£59,487 (Loss)
1961-62	-42,522 (Loss)	-280,457 (Loss)
1962-63	-52,238 (Loss)	-318,928 (Loss) (2)

NB: (1) Aggregate figures include non-trading expenditure heads such as provisions for depreciation, amortisation, audit fees, accrued interest on loan, and board members' remuneration.

(2) Accumulated loses as at 31 March 1963 stood at £1,296,452.

Source: Eighth Annual Report of the Eastern Nigeria Development Corporation 1962-63, Enugu, p.10

Failure of State Capitalism?

Judging by the recent performance of state enterprises in Africa, it is easy to conclude that the experiment in state capitalism has failed. First, most of the enterprises have proved incapable of performing the basic and essential functions assigned to them in their enabling laws and other statutory instruments. Secondly, they have been unable to pay their way and have to depend on grants, subventions and government-guaranteed loans to meet operating commitments. Thirdly, if Africa was looking for a way to catapult itself into a technological age and break away from the chains of poverty, ignorance and disease, it would be well advised to look for alternatives to state capitalism. In any case, African countries do not have to search very hard. Even if an achievement-oriented middle class has not emerged, more and more educated individuals are leaving the services of governments to set up tent in the private sector. These individuals are the credible alternatives to the inefficient state capitalists.

The failure of state intervention in the economic sphere is seen to lie in the irrational and, at times, perverse, behaviour of policy-makers. As political creatures, these policy-makers are subject to political influences. Unfortunately, where logical reasoning says stop, politics is wont to order the system to proceed at full speed. Conversely, where the entrepreneurial instincts of corporation managers dictate quick decisions, the overwhelmingly political and/or bureaucratic

mind of the policy-makers in central government most frequently weave a network of obstacles to allow for consultations with various constituency and other vested interests. Yet, when the world refuses to wait for the policy-makers, they ask for the heads of the corporation personnel.

For their own part, 'supply-side' economists are likely to cite the barriers to rational business decisions as further evidence of the failure of state capitalism. However, is this not more a case of the failure of state capitalists than of state capitalism itself? After all, there was a time, not far in the past, when the wealth created by public enterprises spurred the development of many African countries. The commodity boards, and subsequently, marketing boards, generated surpluses which were invested in government stocks and bonds, and on development projects. The former Northern Nigerian Marketing Board, for instance, invested its reserves as follows* up to 31 October 1965:

		£
(i)	Loan to the Federal Government	2,552,898
(ii)	Loan to Government of Northern Nigeria	5,416,413
(iii)	Federation of Nigeria Development Stocks	3,014,730
(iv)	Federal Government Treasury Bills	3,152,233
(v)	Loan to Northern Nigeria Dev Corp.	500,000
(vi)	Loan to Northern Nigeria Housing Corporation	200,000
(vii)	Nigeria Produce Marketing Company Ltd.	766,667
(viii)	Kaduna Textiles Ltd.	230,000
(ix)	Bank of the North Ltd.	780,937
(x)	Kaduna Hotel Ltd.	700,000
(xi)	Nigeria Sugar Company Ltd.	190,000
(xii)	Nigeria Tarpaulin Manufacturing Co.	106,875
(xiii)	Northern Nigeria Fibre Products Ltd.	133,704
(xiv)	Nigerian Leatherworks Co. Ltd.	5,000

But, like the goose that lays the golden eggs, the Marketing Board was not destined to live long. The first thing to go was its financial autonomy. In March 1965, the Government decided that the Board should no longer participate in direct investment, except in cases where it had already committed itself.

The Board accordingly implemented this directive and "passed on (its reserves), to the Government (which was) to decide how best to utilise the reserve of funds for the country's development through the appropriate Agency"[41]

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41 Eleventh Annual Report of the Northern Nigeria Marketing Board, Kaduna, 1 November 1964 - 31 October 1965, p. 39

It never occurred to anyone that it was odd for one agency to accumulate reserves and for another to allocate them. The issue of autonomy is, in fact, central to the problems confronting state enterprises. These problems are discussed further in the next section.

Problems Facing Public Enterprises

The problems confronting state enterprises have been discussed at several conferences, analysed by different forces, and revisited by endless commissions of inquiry. Yet, at the end of each day, little effort is made to bring about the required structural reforms and philosophical re-orientation. Africa did not suddenly wake up one morning and find its state enterprises in disarray. The danger signals were there all along, and alarm bells were sounded early enough. Thus, true to its tradition, AAPAM organised an Inter-African Public Administration Seminar in December 1973 on the subject of *Management of Public Enterprise*. The problems highlighted by the Seminar are as crucial today as they were in 1973. Other problems have since emerged. The 1973 Seminar identified the following factors among others, as constituting serious impediments to the efficiency of public enterprises:

(i) lack of clearly understood purpose;
(ii) lack of performance indicators;
(iii) failure of external control measure;
(iv) leadership vacuum (at the board and top management levels);
(v) importance of internal management and financial control and reporting mechanisms;
(vi) absence of results-oriented personnel management systems.[42]

Enterprises Objectives

One of the problems facing public enterprises in Africa is that of orientation. It is difficult at any point in time to determine the main reason for the existence of particular state agencies. Their founding fathers might have some objectives in mind, but as soon as they leave the scene, their successors tend to have different ideas. It is also possible for policy-makers to establish a parastatal without

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The Management of Public Enterprises, Proceedings of the Twelfth Inter-African Public Administration Seminar, AAPAM, Ibadan, 3-8 December, 1973

knowing exactly what to expect from it. In fact, unless they are very careful, individuals who spent days preparing for a journey but when it was time to proceed could not decide in which direction to go. This example may seem far-fetched, but if we ask those who create public enterprises to list and attach priorities to the objectives of the enterprises, we are likely to obtain interesting results. Some would emphasise the 'employment-generating' objective, others the profit motive, yet others, the social welfare dimension. But the objectives they declare may not even be as interesting as the ones they conceal, e.g. contract awards, jobs for relatives and close associates, power influence and the accompanying opportunities to order people around.

Performance Indicators

If the objectives are not well defined, it is difficult to establish performance indicators. But unless financial and/or output targets are outlined from time to time, an enterprise will not know which unit is effective and which is not. Until very recently, the prevailing belief in Nigeria was that the outputs of educational and research institutions could not be quantified. Then, under the pressures of 'austerity', many Nigerian universities were compelled to set up consultancy services and 'profit centres'. The University of Ibadan, in particular, has experimented with the concept of profit-sharing, and now has a few success stories to tell. One of its profit-sharing centres gave birth to the "Iyan Project" – a project which has attracted international attention and revolutionised food processing methods at home.

External Control

Again, if enterprise objectives are not clear and performance indicators are not established, how can the 'owners' of the enterprise or their agents control it? What we have today in many African countries is a situation whereby practically everybody wants to exercise authority over public enterprises, but none wishes to accept responsibility for failures. Political functionaries in and outside government circles, the various departments of the civil service and the competing interests within each enterprise all make different demands on public enterprises.

The foregoing should not be interpreted as an argument against external control per se. As a matter of fact, since the enterprises are supposed to be public trusts, those who direct and manage their affairs must somehow be held accountable to the tax-payers. This is the justification for parliamentary and other forms of political control.

Ministerial control makes sense if it maximises public accountability without at the same time obstructing managerial efficiency. At times, however, political considerations overshadow technical factors in the exercise of ministerial control. Thus, when a careful analysis of market forces dictates an increase in the tariff of rates charged by a parastatal for its services, a 'supervising' ministry may, for immediate political gains, block such an increase. The same parastatal might also receive instructions from government to subsidise the prices payable to the producers of certain commodities. Finally, the civil service bureaucracy may, in the guise of 'ministerial control' interfere in the routine administration of a public enterprise, or veto technical decisions, without being in possession of adequate data.

The macro-economic perspective which underlies "Treasury control" is a potent instrument of policy. Nevertheless, Treasury control needs to balance the analysis of the general performance of the economy with a careful evaluation of the performance and requirements of each enterprise. As of now, the various Ministries of Finance tend to look at the size of the cake available for sharing, and, based on the pressures from and negotiations among, competing groups in government, slice the cake into bits and pieces. It was probably in an effort to increase the size of the cake that a successful enterprise like the Northern Nigeria Marketing Board was directed to bake its own cake and hand it over to the Government.

Leadership Vacuum

If the appointment of members of parastatal boards and management is based on merit and individual competence, it would be possible to carry out the essential functions of long range, corporate planning, programme management and evaluation. If, however, such appointments are made on the basis of kinship connections, political party affiliation, or the influence of godfather, it might be difficult to get the board of Directors to have sufficient interest in the substantive problems facing their enterprise. Nepotic and corrupt tendencies in the selection of top management personnel are particularly capable of undermining morale and productivity, and multiplying the effect is incompetence.

Internal Control Mechanisms

According to the 1973 Inter-African Public Administration Seminar, the internal control mechanisms which needed strengthening included:

(a) internal audit;

(b) credit control;
(c) stock and inventory control;
(d) machine accounting and billing;
(e) tendering regulations and procedures;
(f) procurement and supply; and
(g) results-oriented budgeting system.

Personnel Process

The personnel functions of recruitment, training, promotion, performance evaluation, job evaluation and grading, to mention a few, need to be tailored to the competitive business environment in which public enterprises operate. However, like the managerial and financial autonomy which has been taken away by central government agencies, public enterprises' capacity to recruit and motivate their staff tends to be limited. It is not even unusual for some parastatal organisations to operate civil service personnel rules rather than fashion out a process that is in line with their objectives, functions and environment.

Reforming and Revitalising African Public Enterprises

In evolving a turn-around strategy for the ailing public enterprises in Africa, it might be necessary to consider instituting the following seven-point programme:

(i) definition of the optimum scope or boundary of state capitalism;

(ii) specification of the objectives of the various instruments/agencies of state capitalism;

(iii) establishment of performance indicators;

(iv) integration of external control measures with measures calculated to improve managerial efficiency;

(v) selection of competent boards and management teams;

(vi) development of internal control and reporting mechanisms; and

(vii) installation of performance-centred personnel managements systems.

The first issue which African government must resolve before they can expect tangible results from public enterprises is that of boundary definition. They must

ask themselves what properly belongs within the provinces of the regular civil service, public enterprises, and the private sector. Even though there is, as yet, no immutable law governing the relationship among these three sectors, it is still possible to advance some propositions. To start with, matters concerning the preservation and maintenance of social processes in the entire polity may be said to belong within the political sphere. As the politician's Man Friday, the career official must ensure that the civil service machinery is attuned to the requirements of policy formulation, public accountability, and general system-maintenance. This is the rationale for the adoption of *bureaucratic* methods in the civil service.

Most frequently, a government strives to go beyond maintaining a socio-political entity. For economic, pareto-optimal, or ideological reasons, government may decide to manage public utilities, manufacture weapons of war, regulate business activities, or participate in research and development programmes. Since such activities take place in an environment which is both political and economic, and taking into account the specialised skills required for the efficient discharge of the economic functions, the government often considers it necessary to establish public enterprises – viz. enterprises operating with the framework of government policy, but outside the orbit of the bureaucratic civil service. Having taken the fundamental decision to create an entity different from the civil service, it would be a retrogressive and illogical step to subject public enterprise to the bureaucratic regime of the civil service.

Notwithstanding the fact that public enterprises perform innovative and entrepreneurial roles (as different from the civil service's system-maintenance function), the political context in which they operate limits public enterprises' entrepreneurial capacity. It is not difficult to recognise the danger signals when state capitalism is about to go beyond its bounds. As Goran Hyden rightly points out:

> "When governments are in danger of losing control over macro-economic processes, when salaries to public servants cannot be paid on time, when there is no fuel to keep public vehicles going, and when state-owned enterprises have to close down or operate at only a fractional capacity, the limits to state action must be seriously considered."[43]

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43 Goran Hyden, op. cit.

Specification of Objectives of Public Enterprises

Having defined the boundary of state capitalism, the next step to take is the specification of enterprises objectives. The laws setting up the various parastatals need to indicate the main reason for setting them up - viz. economic, educational, scientific, social welfare, research and development.

Establishment of Performance Indicators

With the objectives as a point of departure, the various enterprises must enter into agreement with central government authorities on production and finance targets to be achieved over a specified period. The 'profit performance centres' in each enterprise would then be held responsible for meeting the targets.

Integration of External Control Measures

The various external control mechanisms must operate in such a way that the internal drive for efficiency in the parastatals is not hampered.

Selection of Board and Management

Governments now need to pay greater attention to the type (and background) of persons who are appointed to fill board and top management vacancies in public enterprises. After all, an enterprise is as good as the persons directing and managing its affairs.

Development of Internal Control and Reporting Mechanism

The management of each enterprise should from time to time, subject their entire structure to critical scrutiny. This would enable it to improve operational efficiency, and to plug loopholes in the accounting and financial management system.

Installation of a Performance-Centred Personnel System

In view of the important role of the human resource, public enterprises must review their entire personnel policies. In specific terms, the policies governing recruitment, manpower development and training, grading and job evaluation,

promotions, discipline, postings and transfers, must take into account the special requirements of each enterprise and the environment in which it operates.

7

FINANCIAL PROFITABILITY AND LOSSES IN PUBLIC ENTERPRISES

M. Aboud

Introduction

There is fairly wide recognition today of the need for public enterprises as well as for private enterprises, particularly in African countries which are seeking economic emancipation as a natural follow-up for political independence. Though diverse means are adopted in different African countries for securing such economic emancipation (notably by means of either localisation of capitalism or socialisation of the economy) it is acknowledged that public enterprises can play an increasingly strategic role, not only for achieving economic independence but also for ensuring economic growth.

Although the usefulness of the very system of public enterprise is already being questioned and doubted from the standpoint of cost-benefit to society at large, there is no viable alternative to public enterprises. This chapter proceeds on the premise that the problem is one of revitalising and re-orienting public enterprises so as to make them achieve their objectives and play the part assigned to them. The chapter briefly analyses some of the main causes for the poor performance of public enterprises and discusses specific suggestions for solving some of the problems that have arisen in the attempt to make public enterprises succeed in their tasks. The problem is not merely economic but spills over into the realms of politics and sociology.

Public Enterprises: Performance

In most countries, even in those widely divergent in their social philosophy, their traditions, historical backgrounds, and levels of economic development, semi-autonomous public enterprises in some form or other have been set up. With the crying need for economic and social justice in the face of under-development, lack of resources, inflation, unemployment and similar massive problems, governments of most countries have been constrained to increase their role in major decision-making in economic as much as in social affairs. This growing role of government

has led to a proliferation of public enterprises, but these enterprises have been found in most cases to fall considerably short of expectations in performance and results, not only by the time-honoured measure of profitability as the test of efficiency of an enterprise, but also by other yardsticks, such as return on assets, out-turn per employee or other similar measures. The performance of public enterprises in African countries has been so dismally poor that, either the economy has been rendered stagnant or has shown negative growth, or their contribution to creating conditions for continued growth and equitable distribution of the fruits of growth has been minimal or insignificant.

Attempts to make public enterprises achieve their objectives have been bedevilled by formidable problems common to almost all countries and of which the most basic is how to effect a workable compromise between conflicting aims, i.e. economic profitability and social obligations. Several countries in Europe have been attempting to tackle these problems in the last two decades and African countries can draw useful lessons from the experience of these countries.

It is important to note the following points:

- *Profit: Its Role and Measurement*

Profits play a crucial role in economic growth and development. There are two important aspects of the role of profits. First, in allocating society's resources and efforts to productive purposes. Second, in distributing the rewards of the enterprise. These two aspects conflict with each other: while the first aspect is recognised as essential, the second is condemned as leading to inequalities in income and wealth with all its concomitant evils. Profits do not present merely a return on the capital invested. In addition to such return on capital, there is a surplus representing the recompense for risk-taking by investors and for managerial or entrepreneurial skills. It is this surplus that contributes mostly to capital growth in any economy.

In examining the profitability of public enterprises, therefore, it has to be decided beforehand as to what role profits should play in their functioning. The damaging effects of the distributing role of profits-disparities in income etc., could be blunted by such means as progressive income taxation, social security systems, estate and death duties and the like, and it may still be possible to retain the role of profits as the source of capital formation. If however, capital formation and growth can be achieved by finding other means, or if the role of profit as a source of capital formation would conflict with other essential aspects like pricing of goods and services, profits can be restricted to the element of return on capital. Even this could be reduced by requiring public enterprises just to break even. That, of

course, would be the bottom line and a public enterprise which cannot meet its economic cost, including interest and depreciation, cannot be allowed to continue.

The role profits should play in public enterprises is essentially a political question. One solution is to organise public enterprises into three categories. The first category would comprise enterprises dealing with exports or with goods like alcohol, tobacco, etc. where unrestrained profit maximisation can be allowed without detriment to the nation. The second category of enterprises could be those which would meet their economic cost and provide a fair return on the capital invested. The third category would cover those which, because of the constraints of social obligations, can just break even.

There is one aspect of the role of profits which is unlikely to be met to any appreciable degree in public enterprises, i.e. spearheading innovations (new products, new methods of production, new outlets and markets and new technologies). By their very nature, their organisational structure, methodology and prospectives, public enterprises are hardly conducive to the growth of the innovative spirit. In this respect one might even say that public "enterprise" is a contradiction since there is hardly any "enterprise" or initiative for innovation. Society still looks to private enterprise for this essential aspect of economic development.

- *Measurement of Profits*

In judging the performance of public enterprises by the measure of profits and losses, it must be ensured that the accounts are not skewed up to profitability but are realistic in including interest, depreciation and such other costs, as well as funds or other financial assistance of whatever type received from government by way of subsidies or as capital. It would also be necessary to adopt the "current value" system of accounting methods, as the former would more closely reflect the current economic reality and would facilitate a more realistic picture of profits and losses.

Causes of Public Enterprises' Poor Performance

In theory, there is no reason why public enterprises should not operate profitably. In practice, however, the dominant pattern among them is the lack of profitability, in fact sometimes, losses of enormous magnitude. The reasons for such poor performance by public enterprises are several and varied: excessive control and political interference; inefficiency and mismanagement; priority and preference being given by governments to goals other than profitability, resulting in managers losing incentives to profit maximisation or even cost consciousness; need for

certain enterprises, such as national airlines, to continue operation profits or no profits; and ignorance and misconception about the role of profits among the electorate and even among political leaders, etc. Other factors are: absence of clearly defined goals and objectives for the enterprise; vague and imprecise specification of the duties and power of the ministry and the governing board; blurring of responsibilities and accountability of the ministry and of the governing board; governing board members' dependence on ministerial goodwill leading to insecurity and lack of freedom for action; and ministerial tendency to operate behind the scenes through "lunch club" type directives to the board.

Political Factors

These factors arise because of the need for public control and public accountability which are inherent in the very system of public enterprise. While control over public enterprises is recognised and accepted as essential, the degree of such control and the manner of its exercise constitute a fundamental problem, for it involves a delicate balancing of, on the one hand, managerial autonomy so very essential for the success of a commercial enterprise, and on the other, social control demanded by the public character and purpose of such enterprise. This is a formidable problem, for too much control would lead to apathy and demoralisation, jeopardising the very functioning of the enterprise, while too little supervision may lead to socially accountable organs of political power becoming passive tools in the hands of a self-perpetuating management, resulting in the dissipation of resources without fruitful results for the public benefit. Public control should, therefore, operate effectively but in full recognition of the need for managerial freedom, and should confine itself to major matters of policy, leaving everything else to the public enterprise, acting within this legal competence.

Such public control operates through several channels: ministerial or government control; parliament or legislative control; judicial control; audit control and general social control. Of these, government or ministerial control is by far the most prominent and the most potent for the success or failure of the public enterprise.

Ministerial or Government Control

Ministerial or government powers of control which are in most cases statutorily derived, would include the following, among others:

- power to appoint the chairman and members of the board of Directors and the Chief Executive of the enterprise;

- the power to issue general or specific directives to the Board of Directors as to the exercise and performance of their functions as may be considered to be in the national interest;

- financial powers; and

- the power to call for and obtain information in all matters connected with the functioning of the enterprise.

These are all wide and extensive powers and even though they may be justified on the grounds of public accountability, there is a real risk of the pervasive power of the government or the minister extending over all the activities of the enterprise, "breathing down its neck" in day-to-day affairs. The government or the minister is usually in so powerful a position and has so many opportunities for inducement or persuasion at his disposal that he can almost always influence a public enterprise to do as he likes, whatever the statute may say about his powers. In particular, the power to make appointments to the board of directors may be misused to put political henchmen on such boards without any consideration of their situation or usefulness to the enterprise. Similarly, the power to issue general or specific directives in matters that are considered to be in the national interest is susceptible to abuse, since the concept of national interest is vague and open to varied interpretations. The ministerial "iron fist in a velvet glove" may lead to serious interference in the effective functioning of the public enterprise, making it more a corporate part of a ministry than an autonomous public corporation in its real sense. When government or the minister retains effective decision-making power in all matters of importance, political welfare will be the guiding factor, and the public enterprise may be made to serve the short-term interests of politicians which most often are at cross purposes, not only with the economic viability of the enterprise but also the long-term interest of society.

No doubt, all governments must, to some extent, reward their supporters, particularly in a democratic set-up involving a change of government, since a strict denial of such rewards, even if feasible, may possibly lead to political instability. But using public enterprises for the purpose of such rewards, particularly by way of appointments to the governing board, will be incompatible with the avowed objective of making them a vehicle for spearheading economic growth and development.

Possible ways of tackling these factors

(a) ***Through the instrument of law***

The instrument establishing the public enterprise should be drawn up or amended:

(i) to mention clearly the purposes and objectives of the enterprise in precise terms (and not in wide and varied terms as is usual in private company's memorandum and articles of association), indicating also the role of profit for such enterprise;

(ii) to make the minister accountable to Parliament, specifying his powers in precise terms, limiting those powers to broad matters of general policy and laying down guidelines to spell out the distinction between matters of general policy and day-to-day management;

(iii) to demarcate clearly the relative responsibilities and accountability of the ministry and of the governing board;

(iv) to require that ministerial directives to the governing board should in all cases be issued in writing, and that in case of directives to be issued on matters other than broad general policy, they should be confined to matters of 'national security' (and not 'national interest');

(v) to specify clearly the matters relating to the structure of the governing board; the number of members, their qualifications or disqualification; their tenure and remuneration; their powers and duties; the manner of their removal etc;

(vi) to require that a "White Paper" or other document, setting forth the general policy decisions and directives issued to the governing board, be presented to Parliament;

(vii) to provide that annual audited accounts of the enterprise be prepared and placed before Parliament within a prescribed time limit (together with the report of the Select Committee of Parliament for Public Enterprises, when such a committee functions).

It can, of course, be argued that the political powers-that-be do not recognise any legally binding limits and that no amount of statutory specification can avoid undue

ministerial or government intervention to the detriment of managerial autonomy. This is true to some extent, but the absence of such essential provisions in the relevant instrument might itself encourage unbridled exercise of the ministerial or government powers that would lead to misuse of the powers and opportunities to the detriment of the enterprise. Parliament and the public would have also no means of judging the performance of the ministry and the governing board in the matter of operating the public enterprise, in the absence of such clear and precise coverage of the relative powers, duties and responsibilities.

Parliament will have greater opportunity to examine these matters, once, at the time of making the instrument and again when reviewing its performance against pre-stated criteria, through government statements (White Paper) and the annual accounts and audit reports presented to Parliament.

(b) ***Through constitutional conventions and practices***

Making the statute or the relevant executive order clear, precise and comprehensive is only one of the essentials and by itself may not be able to achieve the desired balance between ministerial or government control and managerial freedom. Even if a tough law restricting such control is made, politicians would be resourceful in finding ways to circumvent the law, especially if it concerns a political issue. What is equally important therefore, is to build up good and healthy conventions and precedents by practice and customs, enlightened leadership at political and government levels and also at the managerial level, adhering strongly to the long-term interests of the nation and the welfare of the society at large.

It has to be remembered also that, as emphasised at a U.N. Seminar (1966) on the organisation of public enterprises, autonomy has to be earned, as much as prescribed by law to convention. The efficiency and success of the public enterprise will itself be a potent factor in reducing undue ministerial or political interference in its management as borne out by the experience of several public enterprises in the West. Another contributory factor is the calibre of the chairman and members of the governing board. It is essential that they posses both political and business skills and if they function by judicious use of these skills, there are greater chances of success.

(c) ***Through certain norms and guidelines***

In several cases the minister himself assumes the chairmanship of the governing board for the public enterprise. Where the minister sits on the governing board, it is almost impossible to secure the necessary autonomy and independence for

management, and the enterprise and the other members will turn out to be 'yes men', losing their initiative and enterprise, thereby jeopardising the successful functioning of the public corporation. Also, in such cases, the minster's supervisory functions become blurred and his rights and duties for independent reviews and judgement of the working of the enterprise will be considerably hampered.

It is, therefore, important that as a rule there should be no ministerial chairmanship of the governing board of public enterprises.

The appointment of sitting Members of Parliament on the governing board of public enterprises, either as chairman or members, is widely practised but is equally open to abuse. If MPs are on the governing board of public enterprises, it would considerably affect the role of Parliament in securing public accountability, as a Member of Parliament is part of the organ of public control and is the exponent of public criticism in Parliament. A Member of Parliament who is on the governing board of a public enterprise is better informed about it and better fitted to criticise its omissions and commissions, but having been, knowingly or unknowingly, a party to such omission and commissions, as a trustee of the people in the Parliament, he may develop the unfortunate tendency to defend the enterprise, even when its position is indefensible. Such appointment of MPs may lead to the creation of 'lobbies' in Parliament and consequent imbalances and unhealthy practices in public life. Further, where the Member of Parliament is appointed to the governing board by the minister and not by the Speaker of the Legislature, it will raise questions of politically patronage and doubtful propriety. Members of Parliament should not, therefore, be considered at all for any membership of the governing board of public enterprises.

It has to be stressed, in this connection, that MPs do have an important role to play in ensuring proper performance by public enterprises, as such a role can be fulfilled more effectively and purposefully by other means: by active participation in parliamentary debates, by utilising the 'Question Time' of Parliament to interrogate ministers and by involvement in Parliamentary Committees on public enterprises (as briefly discussed below under 'Parliamentary Control').

Government or ministerial control operates more potently through financial controls: the provision of funds of the enterprise either by way of share capital or loans or grants; the regulation of budget and expenditure, the approval of capital outlay, the approval for borrowing by the enterprise; the regulation of prices, the formulation of wages policy; the specification of the ways for utilising the profits or surplus or other funds of the enterprise etc. These are discussed below under 'Financial Factors'.

(d) ***Through co-ordination of government or ministerial controls***

The adoption of the principle of decentralisation in government control of public enterprise, by assigning different types of enterprises to the supervising sectoral ministers (instead of having one huge, uncontrollable central ministry for all public enterprises), is certainly desirable, as is actually being done in most countries, but it is essential to have some co-ordination of the control exercised by different ministries. Such co-ordination will be considerably useful in a variety of ways, as in avoiding duplication in such matters as import of technology, concluding managing agency agreements, in research, ensuring fairly consistent and uniform policies in personnel administration, training and career development, salaries and pre-requisites of employees, accounting methods, audit systems and financial reports, the format and contents of annual reports to Parliament, building up a data bank etc. Such co-ordination, though mostly advisory, will go a long way in improving the performance of public enterprises and also in monitoring their performance, and it is desirable that such co-ordination is established at the earliest through a 'Bureau of Public Enterprises' or some entity functioning under the Treasury.

Parliamentary Control

The concept of public accountability carries with it the prerogative of Parliament, as the representative body of the people, for which the minister is accountable. The view that such parliamentary review effects the initiative and enterprise of managements and makes them 'play safe' is not tenable. But it is recognised that parliamentary review is limited to broad matters of policy and not to the day-to-day management of the enterprise.

Parliamentary control is effected on different occasions and through different means; when the statue for establishing the public enterprise is brought up for approval or for amendment, or when the executive order establishing the public enterprise under a common statute is placed on the table of the House of Parliament; when appropriations are proposed for providing funds to the enterprise; when the audited accounts of the enterprise (together with the report and recommendations of a Committee of Parliament, wherever appointed) are presented to Parliament; through interrogations at 'Question Time' in Parliament and through 'Adjournment Motions' and debates which are useful in eliciting information and detailed discussions.

The utilisation of these occasions and the usefulness of the methods would depend a great deal on the interest evinced by Members of Parliament in the performance of public enterprises and in the pains taken by them to study the reports and data

placed at their disposal. Unless these factors are effectively handled, parliamentary control will be diffused and haphazard.

The most effective method of parliamentary control is to have a select Committee of Parliament for Public Enterprises (its members being mostly elected and partly nominated by the Speaker). Experiences in the U.K. has shown that such Select Committees of Parliament can make effective contributions to the successful operation of public enterprises. The Select Committee would, of course, need professional assistance in the form of an institution similar to the Supreme Audit Institution assisting the Public Accounts Committee or Parliament. Vigorous attempts should be made to establish such an institution, since the Select Committee of Parliament is a better alternative for involving Members of Parliament in public enterprises, rather than by making them members of the governing board of the enterprises.

Audit Control

The most essential control of public enterprises will be in regard to financial operations. since the scarce resources of the nation are placed at their disposal, it has to be ensured that these enterprises conduct their financial operations with due regard to economy, efficiency and effectiveness. This can be ensured only if their financial transactions are audited by independent experts. While this need is acknowledged, there is considerable variety in the practices adopted in the various countries. In some cases, public enterprises are statutorily brought under the jurisdiction of the Supreme Audit Institution (Controller and Auditor-General), while in other cases, the audit is entrusted to private, and commercial auditors. In some other cases, a separate institution is created to carry out the audit of public enterprises.

Audit by private, commercial auditors is confined to regulatory audit: correctness and completeness in accounting of transactions, whether the initial records essential for accounting are properly maintained, whether expenditure is incurred on proper sanctions etc. While such audit is a safeguard against internal frauds and accounting deficiencies, it is quite inadequate and unfitted to examine the financial operations of the enterprise in their proper perspective. Private, commercial auditors, are not trained or oriented to carry out 'efficiency cum performance' audit or 'value for money' audit, cost audit, contract audit, revenue and audit similar specialised audits so very essential for adjudging the performance of public enterprises. The establishment of a separate institution for the audit of public enterprises will not improve matters, so long as it patterns itself on the model of the private, commercial auditor and draws on that source for manning the institution. The so-called 'management audit reports' prepared by the institution

will be nothing but glorified audit notes on accounts and will not serve the purpose adequately.

The most suitable method would be to have both types of audits conducted for the public enterprise; the basic audit to ensure the correctness and completeness of its accounts, safeguarding against internal fraud and accounting omissions and commissions, as well as the 'higher audit' to examine the financial operations of the enterprise from the standpoint of economy, efficiency and effectiveness. This can be done either by a single institution having the necessary expertise, or by superimposing 'higher audit' by the Controller and Auditor General over the regulatory audit by the institution.

Audit control is based on the premise that the accounting function is well organised and adequately manned by qualified persons. The lack of qualified and experienced accounting personnel leads to poor accounting, and delays and deficiencies is making up the accounts of the enterprise with the result that, in a large number of cases, the accounts have not been drawn up and presented to Parliament for several years. The absence of the annual audited accounts leads to improper appraisal of the performance of the enterprise, and defects and difficulties continue unremedied. There is also the risk of malpractices in the functioning of enterprise remaining unnoticed for years. It is, therefore, imperative that adequate arrangements are made to build up quickly a large cadre of qualified accountants.

While public control is mostly achieved through peoples' representative bodies and organs like government and parliament, occasionally, it is necessary to promote certain avenues for people's direct control of public enterprises. Such control or rather influence, can operate through several channels such as:

- Consumer Councils to ensure the quality of the goods and services dealt with by the enterprises;
- an ombudsman-type of institution to inquire into malpractices and abuses or power by the persons entrusted with the operation of the enterprises;
- through the press and other mass media; and
- by direct interaction between the people and the public enterprise at periodical, specially called meetings. The consumer councils and the ombudsman-type institutions need statutory backing and authority, and it is desirable to set up these institutional devices early, as making the public enterprises efficient in all respects is a multi-dimensional problem.

One of the underlying factors for public enterprises' poor performance is the apathy and complacency at management level and the curbing of the not so very common attributes of initiative and enterprise, due to excessive interference by political leaders, either through the labour union or through the political cell or representatives planted in the enterprises for the purpose of protecting the workers' rights. These political forces often act in a manner prejudicial to discipline, that results in the management 'playing safe' and the enterprise drifting rudderless in performance and results.

If public enterprises are to be efficient and profitable, it is essential that the tendency to interfere unduly with management through political forces is reduced. This can be done by properly educating political leaders at middle and lower levels regarding their rights and limitations, their duties and responsibilities, the avenues open for remedies to their problems, and the importance of the public enterprise performing well in their own interest and in the interests of the society. Making political forces aware of their proper role and the need for discipline is essential for paving the way for the success of public enterprises.

Structural and Managerial Factors

The basic structure for the administration of a public enterprise is practically the same in most countries, viz an independent governing board responsible to government and accountable for its efficient management. However, in the matter of composition or membership of the governing board, its duties and responsibilities, its powers and limitations and its role in management, the practices followed differ not only from country to country but also from one public enterprise to another within the country.

Among the contributory causes for the public enterprises' failure to achieve their objectives and to run profitably is the poor performance by the governing board in charge, particularly in the production sector. There are several reasons for the poor performance by the governing board, such as:

(a) appointment as members of the governing board of persons who have no knowledge or experience in commercial enterprises, not to mention the particular line of business in which the public enterprise is engaged;

(b) lack of clear specification of policies and objectives of the powers, duties and responsibilities of the governing board;

(c) absence of clear demarcation of responsibilities and accountability on the one side, as between the ministry and the board, and, on the other, as between the board and the Chief Executive;

(d) appointment of more than one top executive in the same organisation (e.g. executive director on the board and general manager) leading to conflicts;

(e) lack of incentives to the members of the board for better performance;

(f) erosion of managerial autonomy by excessive control over the financial operations of the enterprise;

(g) many members of the governing board are also made members of other boards, leading to inadequate attention being paid to the problems of the enterprise.

Similar factors beset the functioning of the enterprise at chief executive level, with the consequence of poor performance and poorer results.

Suggestions for Tackling the Problem

Governing board of directors – composition of the board

Ministers and sitting Members of Parliament should not be on the governing boards as mentioned above. Equally, Secretaries to Government and other civil servants (as ex officio members) should be excluded from the board, as they have to be fair and unbiased in reviewing the performance of the enterprises and in tendering independent advice to the minister for decisions.

The chairman and members of the board should be drawn from such other sources as eminent persons in public life, those retired from public service and retired MPs (after allowing an inter regnum of one or two years after relinquishing their position to allow time for their erstwhile official power and influence to wane), and also private businessmen and academicians. For this purpose, a National Register of eligible persons could be maintained by the government.

Worker-Directors

In keeping with the slogan 'now that democracies are industrialised, industries must be democratised', varying experiments have been made to involve workers in the running of public enterprises. In its extreme form, such workers' participation is established in a few countries, notably former Yugoslavia, by the system of *election* of the governing board by the workers from among themselves. The former Yugoslavian system has been found to be defective in several ways: the board of elected worker-directors is found to accept, without questioning, decisions of the enterprises' chief executive and his team in crucial and significant matters. Further, such elected boards tend to act in ways which conflict with the general interests of society as for instance, in dealing with the unemployment problem or in locating new units.

The more commonly advocated system to workers' participation is to place workers' representatives on the governing board. Several experiments in this line show that the presence of worker-directors had no effect on the decision-making process in crucial matters. The worker-directors were not adequately equipped to study and decide on data and information furnished to the board by the chief executive and his management team; the latter was even found to be inclined to withhold crucial information from such directors. Above all, the workers themselves may not be keen on this form of participation, as they feel they would be in a better position to serve the workers' interests through the negotiation table rather than through the board table. Such 'participative management' by the method of worker-directors on the board blurs traditional loyalties and such directors are likely to incur the odium of being 'obstructionists' from their management colleagues as well as the odium of being 'collaborators' from their union colleagues and workers. The system of worker-directors is therefore not useful.

It is universally recognised, however, that the development of a country is intended for the benefit of the people, and the people themselves should be in a position to participate actively in planning and implementing their development plans. The participation of the workers of an enterprise in planning and implementing is, therefore, essential and unquestionable. The problem is only to decide in what manner such participation can be real and can effectively operate in achieving the multifarious goals of the enterprise.

Based on the experience in several countries, the best system would seem to be the statutory creation of a workers' council in each enterprise, endow them with overriding powers in certain matters connected with the running of the enterprise and clearly demarcate the duties, powers and responsibilities between the workers' council and the management. For instance, in such matters as the regulation of

working hours and breaks, time and place of payments to employees, administration of welfare services, preparation of leave schedules, carrying out vocation training programmes, allotment of housing facilities etc, it can be statutorily provided that the management should obtain the prior approval and concurrence of the Workers' Council before implementing decisions. In certain matters like fixing job and piece rates of remuneration, the strength of workforces and supervisory cadres, production planning, targets etc, consultation with the workers' councils may be made mandatory, though the final decision will be that of management. In other matters, such as manpower planning, the workers' council should have the right to information only. The workers' council would also be entitled to be provided with the audited annual accounts of the enterprise. In other matters, the management will make the decisions without reference to the workers' councils.

Under this system, there will be no need for worker-directors on the governing board, but substantial opportunities for training and developing skills should be made available to everyone in the enterprise.

Powers and Duties, Tenure of Office and Remuneration for the Governing Board

The powers and duties of the governing board should be clearly and precisely specified in the relevant statute or in the executive order establishing the enterprise. The relative responsibilities of the ministry concerned and the governing board, to ensure the efficient functioning of the enterprise, should be clearly demarcated.

No separate board of directors would be necessary for the constituent enterprises, even if the latter are registered as companies.

Chief Executive

The chief executive and his team should be the crucial link in translating the plans and strategies into results-oriented action. To ensure proper accountability, and at the same time managerial autonomy for achieving results, the chief executive should be distinct and separate from the governing board. The chief executive should not be a member of the board, nor should any board member or chairman be the chief executive, as experience has invariably shown that mixing the two assignments (board membership or Chairman and the Chief Executive) leads to several fundamental difficulties. This part of the structural organisation of the enterprise could be set up and operated on the following lines:

(a) The chief executive will be selected and appointed by the governing board on the basis of technical and managerial skills after adequate advertisement. Provision for confirmation by the minister of the appointment of the chief executive could also be made.

(b) It is better to engage the chief executive and his team by individual recruitment rather than adopting the managing agency system. The team mates of the chief executive will similarly be selected and appointed by the governing board but in consultation with the chief executive.

(c) If persons with the requisite skills are not available locally, they should be brought from other countries after adequate consultation and advertising in the selected foreign countries.

Highly competent staff should be employed and adequately remunerated. The French car manufacturing company, Renault, was a highly successful public enterprise and among the important contributory factors for its success was the system adopted by its famous manager Dreyfus for recruiting able, subordinate managers and paying them more than he made.

The tenure and remuneration of the chief executive and of his team should not be under the purview of the wages and personnel policy of the government. Subject to broad guidelines and limitations for avoiding undue disparities among this level of managerial personnel in the various public enterprises in the country, the tenure and remuneration of the chief executive and his team will be negotiated and governed by contract. The tenure would be fixed for a number of years initially (say, four or five years) with provision for further extensions. The remuneration should:

- provide for payment of a stated sum plus additional sums based on the quantum of production or exports vis-a-vis certain pre-stated standards; the additional sums being specified as payable on satisfactory completion of the contract;
- be made conditional on the enterprise being made profitable or break even, as may be decided by the minister;
- require the training of personnel in the requisite technical and managerial skills within a specified period of years.

The chief executive and his team would be accountable to the governing board for running the enterprise efficiently and profitably. Provision should be made in the contract for terminating their services for failure to achieve the targeted production

or exports, or if the enterprise incurs losses, or for delays in training and building up personnel with the requisite skills as agreed, unless factors beyond their control are proved to have operated. Having due regard to the fact that management autonomy is a *sine qua non* for successful operation of a commercial enterprise, particularly in the production sector, the chief executive and his team would have to be given unfettered discretion and freedom to decide on certain matters, as indicated in the illustrative list below:

(i) allocation of financial resources made available to the management for their optimum utilisation (subject to approval by the board for capital outlay beyond certain limits);

(ii) the number and type of persons to be employed at the next below and lower levels;

(iii) regular or accelerated promotions to employees as encouragement;

(iv) the type, nature and standards of incentives payments (over and above the regular remuneration) as an essential motivating factor for the employees (the regular remuneration itself being regulated by the wages policy of the government), the system of incentive payments being evolved by the management in consultation with the workers' council;

(v) weeding out unfit and undisciplined employees;

(vi) the manner of operation and co-ordination of the various units of the enterprise;

(vii) quality control;

(viii) innovating or changing methods and practices for better results;

(ix) timing of purchases, acquisition of capital equipment or its replacement;

(x) matters connected with storage, packing and delivery;

(xi) proposing expansion or diversification (subject to approval by the board and the ministry, or if expansion or diversification as proposed by the board or by the ministry, to advise on all matters connected with plant location etc; from the point of view of profitability of the enterprise;

(xii) making purchases from the lowest cost supply sources;

(xiii) pricing the products (with certain broad limits and subject to examination by a statutory Price Commission).

For the last three items (xi), (xii) and (xiii) above, it may not be advisable to give a 'carte blanche' to the management for final decision, since they are matters having substantial political and social, implications. If on political or non-economic considerations, it is necessary to deviate from the decisions of the management in these three matters and if it is shown that the decisions of the management are based only on the economic aspects for making the enterprise profitable, the financial shortfall or losses arising from ignoring the economic aspects should be quantified and made good by the government to the enterprise. This important working principle will considerably reduce the deleterious effect of political interference in the economic viability of public enterprises.

Organisation Structure below Management Team

Wages and promotion policies

For the lower levels of the structural organisation below the chief executive and his team, the wages and promotion policies have far-reaching and substantial effects on the performance of the enterprise. The formulation of a uniform wage policy, preferably by the government, and its adoption by all the public enterprises, is essential to avoid the dampening effects of disparities in income among the employees of various public enterprises. At the same time, the wage policy should be cognisant of the principle that each man should be remunerated according to his work and that higher recompense for larger responsibilities or for greater devotion to work as judged by results or fulfilment or pre-stated criteria, is not contrary to socialist ethics or even to an egalitarian society. The recognition of the latter principles is essential to avoid demoralisation and lower productivity all round.

The principles should be put into effect by a system or remuneration that combines a uniform base scale with a graded addition, based on results or achievement of the pre-stated criteria. This, of course, would necessitate careful analysis and appraisal of several aspects of work for gradation (e.g. piece work rates etc). In the production sector, such gradation can be formulated without difficulty and this part of the wage structure should be left to the management of the enterprise to decide, in consultation with the Workers' Council or even with the employees themselves, under a self-rating system, according to the nature on the jobs, the needs and objectives of the enterprise etc. The common wage policy to be formulated by the government as a means of public control should confine itself to the base scale of the remunerations.

Similarly, the need for upward mobility in career should be given due recognition by formulating responsive promotion policies, as career promotion improves human resources development, since it brings in opportunities for personal growth besides an increase in income and autonomy in work.

Training

The most potent factor affecting the achievement of the objective of economic independence concurrently with economic growth is development of the human resources potential. Experience in developing countries like India has shown that rapid building up of the human resources infrastructure contributes substantially to economic emancipation as well as the quick growth of the economy. The formulation and implementation of specific policies for manpower development is therefore of paramount importance and as a corollary, training at all levels assumes a vital role. Specific plans for both formal and on-the-job training, both at managerial and worker levels, should be drawn up and implemented through specialised institutions set up for the purpose, as well as through the public enterprises. The cost of such training, whether by separate institutes or by the public enterprises, should be borne wholly by the State. Tailor-made, short-term courses and training programmes also play a very useful part in such training and should be adopted. In heavy, capital-intensive enterprises, or those involving complex operations, prolonged and adequate training should be ensured before localisation measures are implemented.

Financial Factors

Government or ministerial control of public enterprises is nowhere in greater evidence or more frequent than in financial matters; such control operates at several stages and in a variety of ways as indicated below:

- in the provision of funds and resources to the enterprise;
- by regulating its budget and expenditure;
- by requiring approval for capital outlay and for borrowing;
- by regulating prices of goods and services;
- by formulating a wages policy for the enterprise; and

- by exercising control over investment or utilisation of the profits or surpluses or other funds of the enterprise.

Excessive or too rigid controls in these matters result in a large erosion of managerial autonomy and it would be difficult to expect the public enterprise to function 'profitably' in such circumstances. Apart from providing funds by way of initial capital or capital for substantial expansion, the large resources of the State should be used more for meeting the differences between 'commercial cost' and 'social cost', i.e. for making good the deficits arising from meeting social obligations at economic costs, rather than for propping up inefficient enterprises on the grounds of avoiding unemployment or on extraneous grounds such as implementing a prestigious project.

Pricing Policy

The regulation of prices as a necessary component of public control is essential; few would justify bestowing absolute freedom to public enterprises in the matter of pricing, as it would lead to runaway prices, particularly in the case of enterprises having monopolies, and would also have a multiplier effect on the price levels in the entire economy, especially wage policies tied to the cost of living index. Further, such pricing freedom may be misused to conceal inefficiency and mismanagement. At the same time, some latitude is essential for management to decide on the prices to meet costs, if otherwise, the enterprise is efficiently operated, and to find resources for replacements and for contingencies.

The most suitable system would be to allow the management to decide on the prices of goods and services and to provide for approval to such prices by a statutorily created Price Commission or National Board for Prices as a precondition before implementation. The Price Commission or National Board for Prices would be authorised to consider the justification for the revision of the prices and its timing; it would have the power to examine whether the proposed price revision could be avoided or altered if warranted by cost reduction methods, etc.

Utilisation of Profits or Surplus or of the Funds of the Enterprises

Where a public enterprise makes profits, after meeting its economic costs, including interest and depreciation, the profit should be divided into three portions, the first portion to be retained by the enterprise for its capital formation and

expansion needs, the second for capital contributing to other subsidiaries under the holding company, and the third being surrendered to the general exchequer by way of dividends, the mode and quantum of appointment being regulated by government or ministerial decisions.

Foreign Exchange Earnings

The adverse balance of payments position and the non-availability of foreign exchange for essential outlay on capital equipment and spares, on technical know-how and expertise and even for debt-financing, have been the most debilitating factors inhibiting economic growth in African countries. In the limited sphere of operation of public enterprises, this difficulty could be met to some extent by authorising managements of public enterprises earning foreign exchange by exports (or by clearly established areas of import substitution) to retain a part of such earnings (say, to the extent of fifty per cent) to meet its foreign exchange needs for acquiring the necessary capital equipment or spares or other essential outlay affecting its working. It should be expressly stipulated in such cases that the foreign exchange resources allowed to be retained by the enterprises are intended only for such outlay as acquisition of plant and machinery or spares or other such essentials, and not for any other purpose. Acquisition of vehicles or payment of remuneration or fees with such earnings should be prohibited.

Personal Taxation

One of the important factors affecting productivity is the taxation policy of the government. Through a 'progressive' system of income taxation in an acknowledged principle for achieving the objective of reducing disparities in income and wealth among the people, high rates of income taxation, particularly in conjunction with the absence of any incentives for savings, would lead to a disincentive effect on work and productivity. A fairly high non-taxable minimum income, coupled with a ceiling, say of fifty per cent of income for tax, are desirable steps in this regard. Death duties or estate duties at fairly high rates should be resorted to in greater measure to reduce disparities in wealth and income.

Summing Up

If public enterprises are to fulfil their role in economic development there should be a firm conviction and commitment to the concept of profitability, at all levels, particularly at political level. Public control through Government or other organs should be confined to broad matters of general policy and considerable managerial autonomy should be assured. The importance of developing the human resource potential should be adequately realised and there should be due recognition of the fact that material incentives are the most powerful among motivating factors for such development. There must be adequate realisation that society stands to gain substantially by paying handsome rewards to persons with high managerial and technical skills and egalitarian principles and notions of disparities in income should be set aside in the matter of remunerating the hard core of the management team, in view of the scarcity of the requisite expertise. Concurrently, creating wide opportunities for training and developing skills at all levels and providing for a massive outlay by the state for such training are vital for the economic growth and independence of African countries.

8

A COMPARATIVE ANALYSIS OF GOVERNMENT POLICIES ON STATE-OWNED ENTERPRISES: STRENGTHENING EFFECTIVE POLICY MEASURES AND CORRECTING INAPPROPRIATE ONES

Mary M Shirley

Introduction

In all countries – developing and developed, market and socialist – governments are showing increasing concern over the performance of their state-owned enterprises (SOEs). One reason is that SOEs make large and growing claims on the budget. Another is the growing indebtedness of state firms and SOE rates of return that are consistently below expectations.

Governments, intent on getting value for the money they spend and curbing SOE indebtedness, are searching for ways to improve their efficiency. While the circumstances and characteristics of SOEs may vary widely, the problems of trying to assure their efficiency are strikingly similar. Conflicting objectives, insufficient SOE autonomy, inadequate measures for judging performance, lack of incentives linked to performance, and bureaucratic rather than commercial management styles – these problems arise in all sectors and have prompted attempts at reform in socialist and market economies alike. Increased SOE efficiency typically also requires internal improvement – better financial management, more careful inventory control, and a balanced production line, for example. But these reforms will not solve the wider problems of SOE-government relations. This chapter concentrates on these common problems of SOEs and compares the different ways in which governments are tackling them.

The efforts to enhance SOE efficiency typically include:

- setting clear and attainable objectives linked to performance criteria;
- achieving control while reducing undue interference;
- holding managers accountable for results;

- designing managerial incentives and developing a cadre of managers with appropriate skills;

- liquidation or divestiture of non-viable SOEs.

Defining Objectives

One of the most important and difficult tasks for governments is to clarify and rank the objectives of their SOEs. Where state enterprises are expected to pursue both commercial and social goals and to answer to many different constituencies, their performance will suffer unless they are given a clear sense of priorities. Without that, their results cannot be measured against expectations, while losses can be too easily attributed to social goals and poor management thereby concealed.

The Costs of Non-Economic Goals

SOEs are frequently expected to contribute to the broader goals of government policy. The consequences can be perverse. For instance, SOE prices may be controlled to benefit the poor or assist counter-inflationary policies. But SOE consumers are often large industrial users, wholesalers, or the upper and middle class, so they, not the poor, benefit most. Given the regressive nature of taxes in many developing countries and the impact of inflation on the poor, the net effect may be to increase income inequalities.

Where non-commercial achievements are expected of SOEs, a government can judge the net gain (or loss) to society only by making these goals explicit and calculating their costs and benefits. Often it is better to let an enterprise operate on commercial, profit-seeking lines and then use its profits to achieve goals. A commercially-oriented SOE can be a most effective tool for improving social welfare, as exemplified by the experience of the Kenya Tea Development Authority (KTDA). KTDA was created as a 100 per cent state-owned enterprise. In roughly two decades, it organised the planning of 54,000 hectares of tea by some 138,000 smallholders and became the world's largest exporter of black tea. KDTA was set up as a commercial enterprise and was not given many secondary welfare responsibilities that might have weakened its financial autonomy. Because of its commercial orientation, KDTA has been able to develop an industry that

substantially benefits approximately one million members of tea growers' households, as well as labourers, traders, and others in the tea districts.[1]

Where an SOE is required to pursue non-commercial goals, the added expenses should be estimated in advance and financed through the budget. If it is not reimbursed, the SOE will be decapitalised, morale will suffer, and the quality of its goods and services will deteriorate.

Unfortunately, governments often reimburse their SOEs with an automatic, cost plus subsidy, which can erode financial discipline and reward the inefficient. The availability of subsidies can cause management to relax emphasis on cost minimisation and weaken resistance to pressures for wage increases. This is always the risk with subsidies; but the risk can be minimised by specifying the SOEs' social welfare goals, carefully calculating the added expense, and monitoring agreed upon indicators of performance.

Mechanisms for Setting Objectives

In practice, it is hard to define targets for SOEs by an assessment of costs and benefits. Nevertheless, governments in some developing countries (Senegal, Mauritius, and Ivory Coast, for example) have made important efforts to clarify objectives by emulating the French contracts plan and contract programme. Under such arrangements, governments pledge to meet their financial and other obligations and to aschew ad hoc interference: in exchange. SOEs accept negotiated performance targets. The experience of Senegal, as in France, shows that the contract itself is less important than the process of preparing and negotiating it. The agreements help both parties to translate vague intentions into quantifiable goals. It leads the SOEs to develop corporate plans and requires government to clarify its priorities. The two-way nature of negotiations increases the SOEs' willingness to comply with the contract. Contracts also make the costs of achieving objectives more transparent, thus allowing a more rational consideration of costs and benefits. In Senegal, for example, loss-making air services to remote areas were cut back after Air Senegal presented an estimate of losses per passenger kilometre.

Some observers have questioned whether the time and effort required to produce a contract (as much as two years in both France and Senegal) is not exorbitantly

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1 See Godfrey Lamb and Linda Muller, Control, Accountability, and Incentives in a Successful Development Institution. The Kenya Tea Development Authority, World Bank Staff Working Paper No. 550 (Washington, DC 1982)

costly for a developing country. One lesson from Senegal's experience is that contracts should be modest in scope and sophistication, especially initially. It also shows the importance of developing an adequate system for monitoring results and incentives linked to performance.

Control Without Interference

The challenge of control is to design a system that holds managers accountable for results while giving them the autonomy to achieve targets. In an effort to reduce arbitrary intervention by government, countries have devised institutional arrangements that place the government at arm's length from the SOE. Boards of Directors or holding companies have been widely used to create a buffer between SOE management and the central bureaucracy, to provide policy direction, and to report on results. Special bureaux, commissions and ministers have become a popular way of centralising information and control of SOEs.

Administrative reforms often begin and end with changes to the institutional arrangements. These arrangements have a mixed record, however, showing that institutional changes alone rarely achieve a satisfactory balance between independence and control. Furthermore, arrangements that work well for one country or enterprise may not do so elsewhere. For example, the Ethiopian Telecommunications Authority (ETA) functioned relatively well with a politically oriented board of directors dominated by a minister – an arrangement that has proved disastrous in other countries.

ETA's board has not interfered in the daily operations of the company. The general manager is recruited from the ranks and is expected to run the company as a commercial operation within the guidelines set by the board. ETA's board has powers usually split among several ministries and agencies. It sets tariffs, hires and fires the managers, and approves ETA's staffing plan, budget and investments. The general manager, in turn, is also powerful and can fire incompetent staff, compete in domestic capital market, and make the necessary decisions to implement the company's plans.

By contrast, the boards of directors of SOEs in Turkey act as conduits for direct government control of all facts of operations. The boards are made up of the Director General; Directors representing the Ministry of Finance, the SOE's oversight Ministry, and the Labour Unions; and two Assistant Directors. The oversight Ministry appoints the Director General and Assistant Directors and runs the day-to-day operations of the company through the Board, which sits in permanent session. Managers are virtually civil servants, and the SOEs were, until recently, run more like government departments than independent concerns.

To avoid such direct control, many countries rely on holding companies, some of which have proved to be a useful way of achieving government aims while allowing SOEs greater discretion in day-to-day operational matters. Others have become counter-productive, substituting one form of *ex ante* bureaucratic intervention for another. An added drawback of introducing an extra layer of bureaucracy is that it uses more scarce managerial resources.

Pakistan, for example, created a Board of Industrial Management (BIM) in 1973 to direct twelve corporations (with about fifty production units) on the model of Italy's IRI. The BIM answered to the Ministry of Production. This four-tier hierarchy was expected to increase the autonomy of the production units. Instead, a government commission found in 1978 that it had "resulted in the gradual centralisation of authority and decision-making at powerful points in upper tiers.[2] Furthermore, the overlapping functions of the Ministry, the BIM and the corporations slowed down decision-making and contributed to a "breakdown of communications between management of the enterprises and upper tiers, which lack proper understanding of the problems at the unit level." On the commission's recommendation the BIM was abolished in 1978.

Some countries have centralised supervision of their SOEs in government bureaux or specialised ministries. One of the oldest of these in a developing country is India's Bureau of Public Enterprise (BPE), set up as part of the Ministry of Finance in 1965. The BPE gathers information on about 200 of India's SOEs, reviews their performance, gives technical assistance to their managers, appraises investment proposals, gives training and assists in developing training programmes, helps to recruit and select managers, and sets guidelines for wage agreements and standards for various aspects of production. These are broad responsibilities – especially since BPE had less than ninety professional staff in 1982.

The bureau has little power over the SOEs; rather, the government controls its enterprises through its representatives on their boards, the Finance Ministry's budgetary control, the Planning Commission's review of investment. Moreover, the frequent changes in the head of the bureau has weakened its influence. Nevertheless, its guidelines are taken seriously especially by smaller firms.

The BPE performs a valuable function in gathering and systematising information on the performance of SOEs. It recently developed performance targets for the

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H.U. Beg, Aamer Raza Khan, D.M. Quereshi, A Kalam, and Anwar H. Siddiqui, "Report of the Implementation Committee on the Re-organisation of State Industrial Enterprises, November 1978", in Leroy Jones, Efficiency of Public Manufacturing Enterprises in Pakistan (August 1981)

next two years with the chief executive officers of the enterprises, in collaboration with the sectoral ministries. In 1979, the Bureau also instituted an "early warning" system, which provides quarterly data on financial performance, physical performance, and progress on investment projects. The aim was to flag problems or slip pages to management and government and allow prompt remedial action.

BPE's efforts to set guidelines and standards for performance have been less successful. Some of these standards are in areas - such as wage negotiations or travel allowances - that SOE managers regard as their prerogative. The bureau has also become involved in details, for example, setting standards for factory perimeter fencing. The effort to standardise the activities of so many diverse SOEs have damaged BPE's credibility with some managers, who believe the bureau would be more helpful if it concentrated on key issues, such as technical assistance and training or facilitating SOE interactions with the government.

Other countries have created supervisory agencies with more authority than the BPE. Liberia, for example, is setting up a State Enterprise Information Bureau (SEIB) that will collect and analyse information on SOEs, and also negotiate performance targets with SOEs and administer a system of managerial bonuses based on performance. It will manage quarterly performance review meetings and compile an annual report on the state enterprise sector, as well as analyse critical sector-wide issues. The SEIB will be attached to a State Enterprise Co-ordinating Council, an advisory council of ministers and agency heads, that will formulate policy for SOEs and approve targets and bonuses.

Boards of Directors, holding companies, and central bodies can either play a vital role in monitoring performance or they can become a bureaucratic bottleneck. Their role depends largely on whether a government is merely preoccupied with short-term goals, such as implementing austerity programmes or curbing abuses, or also takes a broader, long-term view of the role of SOEs in the economy. The creation of these bodies has the most beneficial impact when accompanied by some of the other reforms described below.

Performance Evaluation

Clear objectives and targets are not very meaningful without a system to evaluate and act on results. SOEs are most typically evaluated on the basis of financial profits - for good reasons. Under competitive conditions and correct prices, a profit-maximising firm strives to achieve maximum benefits for minimum costs - the definition of efficiency. Moreover, SOE profitability is directly relevant to the fiscal deficit and the management's freedom to act independently. For SOEs, however, profitability must be modified to take into account four factors:

(i) ***Monopoly***

The best way to end monopoly power is to introduce competition and allow market pricing. Where that is not possible, the prices of monopoly SOE can be set according to its marginal costs; and the SOE then instructed to maximise profits. Although, adjusting administered prices typically involves practical and political problems, the long-run benefits can be substantial. Removing price distortions helps correct the misallocation of resources and discourages waste.

Nevertheless, it can be impractical to introduce marginal cost pricing, or it may produce unacceptably high prices. In that case, the enterprise can still be required to minimise costs. Minimum cost indicators can be developed, based on international comparisons and the SOE's own previous performance.

(ii) ***Accounting for public profits***

Some items, such as taxes, can be excluded from public profits so as not to encourage SOE managers to waste time on activities such as tax minimisation, which may be deemed irrelevant to their jobs. Judging managers solely on the basis of profit, however, may lead to the neglect of activities, such as maintenance, which reduces profits in the short-run but have a long-run benefit. Additional targets can also be set for these activities.

(iii) ***Conflicting goals***

If the SOE is required to perform non-commercial roles that reduce its profits (such as hiring extra staff to increase employment or setting up a plant in a particular area to promote regional development), the government can reimburse it for the extra costs or reduce its profit target accordingly.

(iv) ***Distorted prices***

These can be rectified by using shadow prices for assessing SOE results. Shadow prices are calculated to reflect the opportunity costs of an enterprise's inputs and outputs. For example, the price of imported fuel may be held down by a government subsidy, but SOE accounting should value it according to its world price to ensure it is used efficiently. The results derived from shadow-price accounting can differ widely from conventional profits and losses, as one study of industrial SOEs in Egypt has demonstrated. In almost all of the twenty-seven

industries sampled, the financial rate of return calculated on the basis of extensively controlled market prices pointed in opposite directions from the economic rates of return based on shadow prices. For example, industries producing oils, soaps and detergents showed a 14.4 per cent economic rate of return, yet financial profitability was negative; nonferrous metals earned a 15.5 per cent financial rate of return, but the economic return was negative. Not only would it be misleading to judge an SOE on the basis of its financial performance, but a manager reacting to financial signals under these circumstances would make the wrong economic decision.

While these four refinements have been extensively analysed in theoretical work, their application has proved practically and politically difficult. For example, shadow prices involve complicated calculations and are difficult to administer. Controversies can arise over any of the accounting ratios and it may prove impossible to judge a powerful SOE manager on the basis of such a debatable measure. The best solution is to move to market-pricing and remove distortions wherever it is feasible, so that market prices accurately reflect the economic prices. Such an effort cannot be piecemeal, since what matters for efficiency is not the absolute level of prices but their relationship to one another; moving only one set of prices may not help matters. For example, raising the price of energy to world levels but keeping agricultural prices artificially low may discourage productive investment in agriculture. Furthermore, there are likely to be short-run welfare and political costs that will make it difficult to remove price distortions, even though the long-run efficiency gains will probably be substantially greater.

Market-pricing must go hand in hand with curbs on SOE monopoly power. Turkey gave pricing freedom to a number of its state industrial firms in 1980. As a result, the five largest manufacturing firms earned about a $6 million profit instead of an expected $11 million loss in 1981. Since many of the companies are monopolies or quasi-monopolies, however, this pricing freedom creates no pressure to control costs. Rather, it provides opportunities for SOEs to overcharge their consumers, a practice that could have adverse economic consequences. For example, efficient competitive downstream industries might be bankrupted by having to pay excessive prices.

One system to overcome some of the practical difficulties in using profits to evaluate performance when prices are distorted is being implemented in Pakistan. The Pakistan "signalling system" uses "public profitability" in constant terms as a indicator of performance.[3] "Public profits" are private profits adjusted for those elements that are not deemed relevant for an SOE (for example, taxes and interest).

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3 See also Lauren Cooper, The Twinning of Institutions, World Bank Technical Paper No. 23 (Washington, D.C., 1984)

The costs of non-commercial objectives that might affect profits (such as the extra cost of purchasing from local suppliers to encourage domestic industry) are deducted before profits are calculated and treated as an "in-kind" dividend to the government.

Because the administration of shadow prices is a complex and controversial task, Pakistan is judging its SOE managers, for control purposes only, by trends in public profit at constant prices. This is equivalent to constructing a quantum index of profits on the basis of quantum indices of inputs and outputs. This is an acceptable approximation of efficiency in performance evaluation (thought not in project evaluation), since it is concerned, at least initially, with the trend rather than the level of performance. Enterprises will be judged on the basis of their return to fixed operating assets, or public profitability, in constant terms. The performance of any individual firm will be compared with its own record over the past five years.

Extra targets are negotiated for activities with current costs but future benefits (such as planning, maintenance, training or innovation). However, a firm will first have to show that it can use existing resources efficiently, hence, 90 per cent of its initial target may be assigned to public profitability.

At the end of the year each SOE's performance will be rated according to how close it came to meeting its composite target. The monitoring and evaluation will be done by the Expert Advisory Cell, a semi-autonomous agency responsible to the Ministry of Production but financed by a levy on the SOEs themselves. The cell has been able to maintain a remarkable degree of independence and, because it is outside the government pay limitations, to attract a specialist staff. At a review meeting with the cell, managers will be able to present an explanation of their results. Good performance will be rewarded with increased autonomy and possibly with a salary bonus.

The signalling system is expected to notify managers about what the state expects of them and to motivate them to comply. Two other reforms also under way in Pakistan are critical to its success - greater autonomy for SOEs and improvements in the selection and training of managers. These should create managers with the appropriate skills and give them the necessary freedom to achieve their targets. The signals the system sends to the government are as important as those it sends to the managers. If it functions properly, the system should alert the ministry when its demands are unreasonable and when the environment makes it impossible for the SOE to meet its goals. Ideally, this should lead to policy and other reforms in the general environment to complement the internal improvements in the firms.

While public profitability is less ambiguous than multiple targets, it is also incomplete. Because it is based on trends, it does not indicate how close to, or far from, maximum efficiency an enterprise is operating. Moreover, it does not give government any indication of SOE performance in meeting its social goals. Nevertheless, even though systems which use more comprehensive indicators are theoretically appealing, they are operationally impractical. Pakistan's signalising system is designed to turn around the short-run operating performance of SOEs by establishing an unambiguous and easily understood indicator of results. Once the monitoring and incentive systems are functioning, other refinements can be introduced.

Performance evaluation is, in many respects, an awkward administrative substitute for the pressures of a competitive market. Some developing countries have also tried to increase the exposure of their SOEs to competition. In Hungary, for example, at least 130 new firms were established since 1980 by breaking up horizontal trusts and large state companies. SOEs can also be encouraged to compete in export markets. Hindustan Machine Tools (HMT), for example, is a successful Indian SOE. Only about 8 per cent of HMT's total sales are exported (versus a target of 20 per cent), but a case study of the company found that even this limited exposure to competition contributed to HMT's dynamism and professionalism. Competition also increased HMT's search for access to technological and managerial innovations.

For competition to be effective in promoting efficiency, managers must be given discretion to respond to competitive pressures, which may mean reducing staff or ending unprofitable services; moreover, these measures must be accompanied by pricing freedom. Privileged SOE access to subsidised credit and inputs should also be ended, otherwise there might be a strong bias towards capital-intensive investment.

Information on Performance

Assessing SOE performance requires a regular flow of reliable information. But in many developing countries the internal management information systems of SOEs are deficient or non-existence. SOEs (as well as private companies) are not audited according to uniform standards; more than seventy developing countries have no accounting standards. Trained accountants are scarce, because in many developing countries (outside Latin America) accounting did not become part of the university curricula until after 1960. Even now, there are often no uniform standards of training. Under these circumstances, neither management nor government can judge results or budget for the future.

These weaknesses are gradually being rectified. Many Francophone West African countries have tried to adapt France's accounting model to their needs. This programme – the OCAM *plan compatible*, started almost twenty years ago – has met with mixed success, partly because its application has been too inflexible, with too much reliance on expatriate experts and too little attention paid to local accounting capabilities.

The OCAM system generates information that can be used for macro-economic analysis. This information can also be reallocated to produce cost accounts for individual enterprises. Reallocation, however, requires skilled managers and accountants to define the enterprise's needs and develop an accounting sub-system. Since the accounts must be changed on an entry-by-entry basis, the reallocation can be time-consuming if done manually. SOEs in many developing countries lack the personnel and the hardware to make these adjustments. A 1982 survey of SOEs in Madagascar, for example, found that very few had developed effective cost accounting.

In Senegal, the accountancy profession has proposed a two-tiered system, in which annual external audits conforming to internationally accepted procedures would be required for all companies above a certain size and "limited review audits" would be required for all other companies. The latter would be stricter than the current standard but less comprehensive (and cheaper) than full-scale audits.

The development of uniform and credible accounting requires a trained body of practitioners as well as a system to set and review standards and to qualify accountants. To build up such a system, governments need to designate an agency to be responsible for the development of accounting, establish accounting standards backed by an appropriate legal framework, assess staff needs and designate training for book keepers and accountants, and foster a professional association that could assume responsibility for enforcing standards. In Madagascar in 1979, the Government created a state enterprise, RINDRA, to conduct administrative, financial, and performance audits of SOEs. To date, RINDRA has concentrated on financial audits, which it conducts at the request of the Government or the enterprise. The quality of its audits is considered good and it has been helpful in developing accounts for smaller public companies.

Managerial Incentives and Skills

Institutional success is often attributed to be presence of "a good manager". Competent staff are no doubt in a vacuum. They need incentives to attract and motivate them, and the power to be effective. Some of the most effective rewards are non-pecuniary – recognition, greater responsibility, promotion, and natural

honours. Autonomy can also be a strong incentives for SOE managers. For example, the threat of losing its independence motivated the management of Kenya Tea Development Authority. By the same token, managers need to know that they face penalties, including losing their jobs, for poor performance.

As for pecuniary incentives, these again raise the conundrum of how to evaluate performance. Profitability is an unreliable indicator of managerial performance when there are distorted prices, subsidies or monopoly rents. Furthermore, SOE managers may lack the autonomy to affect profits by, for example, choosing a foreign rather than a domestic supplier for firing excess staff.

The proposed bonus system for Pakistan would assess managerial performance on the basis of how well the SOE met its targets, after taking into account any aspects or circumstances beyond the manager's control. They system under consideration would rank performances from A to D and award a bonus to managers based on salary (up to 5 months) according to the ranking. The system will not - at least initially - reward managers according to "public profitability". Rather, bonuses will be based on trends in traditional profits. Thus, its accuracy will depend on how well prices reflect relative economic scarcities. If the prices are wrong, the system may inadvertently reward the inefficient and penalise the efficient.

The skills of a public enterprise manager need to be closer to those of his private sector counterpart than to those of a government bureaucrat. Nevertheless, in many developing countries, managers are part of the civil service, or at least subject to its pay scale. Even where this is not the case, their pay seldom matches private salaries. Although the prestige and challenge of running what are often the largest corporations in the country may sometimes compensate for lower pay, low salaries tend to deter skilled managers and increase the rate of staff turnover. To give one of many examples, salaries in public utilities in Turkey averaged one third of those of the private sector in 1981, and the company has had several general managers in the past ten years.

In many developing countries top executives of SOEs are recruited from the ranks of the civil service or the military. These individuals often lack the skills to run a commercial venture and may identify more closely with their former bureaucracy than with the enterprise. Furthermore, the growing number of SOEs has contributed to the shortage of managers in many sub-Saharan African and South Asian countries, a shortage sometimes exacerbated by programmes for rapid indigenisation. Many senior posts are left vacant or are filled by unqualified staff. For example, in Tanzania half of the ten large agricultural SOEs had no financial manager in 1980, and Nigeria's Electrical Power Authority had thirty-five of its eighty-seven higher management posts vacant in 1981.

In certain specialised areas (for example, mining in Zaïre), management contracts with expatriate firms have helped to alleviate the shortage of managers. Another step is to give priority to managerial development in SOEs. In the past, more attention has been paid to technical expertise for SOEs than to their managerial requirements. Some of the largest SOEs have their own management training course, but most rely on business schools, management consultants, expatriate advisors, and foreign suppliers or collaborators.

Some countries have taken advantage of the economies of scale in training by creating training centres for groups of enterprises. For example, the Portuguese holding company for manufacturing SOEs, IPE (Instituto dos Participacoes do Estado), provides training to managers of its subsidiaries through a special training wing. "Twinning" an SOE with its counterpart in another country has proved an effective way of transferring know-how and training staff. The more developed SOE may temporarily provide its "twin" with some of its own staff as advisers and trainers, may make periodic visits to give technical assistance, or may employ the staff of its "twin" at its own facility for on-the-job training. A case in point is the Tanzanian Electric Supply Company Limited (TANESCO), which was "twinned" with the Electricity Supply Board (ESB) of Ireland in 1977.[4]

Liquidation and Divestiture

By saving the economy from the burden of non-viable enterprises, liquidations act as a major force for efficiency. Because of the financial and social consequences, however, governments are reluctant to let big firms close, whether they are in the public or the private sector. Even when they are small, SOEs are seldom liquidated. But the costs of keeping non-viable companies alive are considerable - fiscally draining, administratively demanding, and wasteful of potentially productive resources.

In deciding whether to liquidate, the government needs to determine whether the financial and economic costs of operating the SOE outweigh the benefits. This question obviously raises the ticklish problem of how to measure intangible benefits. Yet, in practice, many governments are making a determined effort and closing some of their public companies. The Ivory Coast, for example, has closed sixteen public firms since 1980, and Brazil dissolved ten in 1982.

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4 See also Lauren Cooper, The Twinning of Institutions, World Bank Technical Paper No. 23 (Washington, D.C., 1984)

Selling or denationalising state-owned enterprises is another way of easing their administrative and financial burden on the state. A working party recommending divestiture in Kenya gave the following reasons:

> "First, experience suggests that many of these commercial investments would be more productive, better managed and more profitable in the hands of private owners.... Second, troubled investments have required an inordinate amount of the time of government administrators, managers and policy-makers, hence diverting their attention from the more basic development needs of the nation. Third, many of the initial reasons for these investments have been satisfied or are of lesser importance under present circumstances."[5]

A number of governments, including Bangladesh, Brazil, Chile, Italy, Jamaica, Kenya, The Republic of Korea, Peru, The Philippines and Zaïre have divested, or are planning to divest, SOEs. Generally, however, the number of important enterprises sold is not large. Two exceptions are Japan and Chile. After an initial attempt to promote industrialisation through state ownership, the Japanese Government in the 1980s sold a large number of state firms, including fifty-two factories, ten mines, and three shipyards. In the 1970s, Chile returned 259 nationalised companies to their former owners.

Divestiture can produce important net gains to society when the costs of public operation outweigh the benefits. It is likely to be easier to ensure genuine competition among private firms and to reduce unjustified government intervention. It could allow the state to concentrate on the most pressing activities that any government can pursue. Nonetheless, divestiture has been hard to implement. It is a politically sensitive measure and prompts charges of corruption. In addition, governments often try to sell only their money losers, for which there are few buyers. Often, they also sell during a recession when the market is poor.

Another obstacle in developing countries is the absence of a strong capital market. Since many public companies are large, or government may wish to sell a large number of small firms, domestic investors may not be able to raise enough capital to buy them. Efforts to develop the stock market, and schemes that appeal to small savers through their pension funds, could make it easier for governments to divest. Spreading ownership more widely and divesting only gradually could improve the chances of privatisation, and might even reduce the political controversy involved.

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5 Republic Kenya, Report and Recommendation of the Working Party on Government Expenditures (Philip Ndegwa, Chairman), July 1982

A sale to many small shareholders might make a realistically low price more acceptable. Leasing can also be a promising route to divesture: a private manager might be brought in to run a potentially profitable enterprise for a share of the profits and an option to buy.

Agenda for Reform

This chapter has examined ways governments are attempting to improve SOE efficiency, concentrating on the problems that are common to most SOEs in most countries. By recognising the SOEs' special circumstances and constraints, developing countries should be able to develop an agenda for reform that would correct some of their main weaknesses:

- Setting clear-cut attainable objectives is the inescapable first step towards improving SOE performance. The costs of non-commercial constraints placed on SOEs should be calculated and weighted against the benefits to society.

- Once constraints have been identified and the costs estimated, governments can instruct many SOEs to maximise their profits, taking into account other objectives that reduce profits by reimbursing the companies or lowering their profit targets.

- Negotiated agreements, such as contracts or corporate plans, can help to put SOE-government relations on a more constructive plane. In particular, two-way contracts can help win SOE management over to the idea of reform by setting out benefits as well as responsibilities. Once government has laid down objectives, managers can be made responsible for choosing the methods of achieving them.

- Systems for monitoring and evaluating performance are needed to transform good intentions into results. By promoting domestic and international competition, encouraging consumers and other customers to make their views known, and requiring SOEs to pay the opportunity costs of their capital, governments can add to the pressures for good SOE performance.

- Managerial ability is key to the success of SOE reform. Managerial incentives linked to performance are important in motivating top managers. Some of the most powerful incentives are non-pecuniary (recognition, prestige, awards). Compensation and training should be

geared toward creating a corps of competent SOE managers with appropriate skills.

Efforts should also be directed at encouraging continuity of senior staff.

With strong political backing, this agenda is feasible. In any administrative system there are strong vested interests opposed to change. Opposition to reform may come from managers of powerful SOEs or senior government bureaucrats fearing loss of power, labour unions featuring job cuts, SOE clients fearing an end to subsidised outputs, suppliers fearing reduced SOE spending, or even SOE competitors (some private companies profit nicely when prices or incentives for a sector are geared to allow an inefficient SOE to survive).

Since these elements are inter-related, a piecemeal approach is unlikely to achieve the desired results. Without clear objectives, there can be no standards by which to judge performance; without accountability, SOEs would behave without restraint. Incentives can be linked to performance only if there is a meaningful way to measure results; performance evaluation makes sense only if managers have the autonomy to influence outcomes; without performance evaluation, there is no way to distinguish good managers from bad. Developing a framework to guide SOEs toward efficiency is thus a lengthy, complex process that requires commitment, persistence, and flexibility on the part of the state authorities and enterprise management.

9

MANAGERIAL AUTONOMY AND ACCOUNTABILITY IN PUBLIC ENTERPRISES

W. N. Wamalwa

Introduction

Public enterprises have a vital role to play in the socio-economic development of African countries. In terms of the amount of resources they utilise, the range of skills they employ, and the contributions which they make, or are capable of making, to the gross national product, these public enterprises constitute strategic sectors of national economies. However, their performance has lately come in for sharp criticism. Not only are they regarded as bottomless pits gobbling up scarce national resources, but many of them have been accused of being incapable of discharging the services and the obligations which were considered vital at the time of their establishment. Moreover, judging by the huge capital investments and recurrent expenses undertaken by these enterprises, they could be held partly liable for the increasing external debt burdens that are slowing down the progress of many countries in Africa today.

In this chapter, it is argued that the future of the public enterprises in Africa lies in maintaining a proper balance between autonomy and control. African countries need, on the one hand, to establish a self-funding, self-management and self-regulating tradition in public enterprise undertakings, and on the other hand, ensure that the various enterprises meet some minimum standards – such as the standards of efficiency, political accountability, and service to the public. The chapter starts with a typology of public enterprises in the hope of providing a conceptual framework for evaluating policies on control and autonomy. In the second section, we evaluate the various control measures that have been instituted by governments over the years. In the third section, the chapter focuses on the type of structural and organisation changes required to promote managerial autonomy and effectiveness.

Classification of Public Enterprises

What constitutes an appropriate balance between autonomy and control in public enterprise management depends on the nature of each enterprise. Unfortunately, there is as yet no universally accepted method of classifying public enterprises. There are as many classification schemes as there are governments and public enterprise review commissions/committees. Moreover, myriad classification systems are frequently adopted for pay and grading purposes rather than as part of the overall process of deciding what each enterprise stands for and how its affairs ought to be directed.

One of the methods adopted in classifying public enterprises (especially in the colonial, and immediate post-colonial period, yielded a fourfold classification scheme, viz:

(i) government departments and regulatory agencies (just a little removed from pure civil service organisations);

(ii) statutory corporations (body corporates established by specific enabling acts);

(iii) state-owned companies (limited liability companies owned wholly or in part by government and subject to limitations imposed by pertinent company acts); and

(iv) management agencies and joint ventures (invariably, ownership resides in government, while management is supplied by foreign partners).

As the number of public enterprises increased, and with the expansion in their scope of activities, the fourfold classification described above became inadequate. Besides failing to indicate the type of results which enterprises in each category were expected to achieve, the scheme provided no guide as to how the various enterprises should be managed internally and controlled externally. In brief, the scheme proved least useful if the intention was to strike a balance between managerial autonomy and accountability to external bodies.

In an effort to overcome the limitations imposed by the preceding system to classification, another method – i.e. classification by major area of activity – is sometimes adopted. With this method, it is possible to identify three ideal types viz:

(i) regulatory agencies (e.g. Bureau of Standards, National Standards Organisations, Securities and Exchange Boards/Commissions, National Universities Commissions, National Manpower Boards);

(ii) public utilities (e.g. railways, water boards, electricity undertakings and municipal transport services); and

(iii) profit-making enterprises (banks, insurance companies, manufacturing and commercial organisations).

Even though classification by area of activity represents an improvement over the previous method, it too is of limited application as far as the issues of autonomy and control are concerned. This is probably the reason for the popularity enjoyed by yet another method of classification, i.e. classification by 'ownership'. The logic in this system of classification is straightforward, i.e. if the source of finance can be identified, the problem of how to govern and control a public enterprise is easily resolved. Isn't it frequently argued that he who pays the piper calls the tune? The method of classifying public enterprises by ownership is likely to produce the following ideal types:

- *enterprises wholly owned and financed by the government* (e.g. public utilities, statutory corporations, educational institutions, research and development agencies);

- *partnerships and joint ventures* (e.g. petroleum refineries, petro-chemical companies, merchant bands); and

- *managing agencies*, financed wholly or largely, by government but turned over to management agents or consultants (e.g. national airlines or railways contracted out to foreign companies).

That the 'owners' of an enterprise should seek to control it is not the dispute. The question is what form the control should take. How does the owner of an enterprise share the policies of the enterprise without meddling in day-to-day administration and without sending conflicting signals to the management staff?

Useful as it may be, the concept of ownership is capable of being misapplied in the management of public enterprises. In fact, outrageous decisions – decisions that are likely to affect the survival and long-term development of an enterprise – may be taken by the mere fact of ownership. The hands of the 'owners' may be tied by prior contractual agreements with management agents. Superior management skills and a complete mastery of complex technology may also serve as effective weapons in the hands of foreign partners seeking to keep nosy politicians and

bureaucrats at bay. However, when the enterprises concerned are wholly owned and financed by government – and particularly, when the enterprises are managed by 'indigens' – the 'owners' on the government side are prone to throw caution to the winds, if only to prove who is in charge.

The problems facing public enterprises tend to be compounded by the fact that several 'owners' and/or their representatives seek to exercise control at the same time. The political class and their constituencies most frequently take their claims first as the 'owners'. The civil service bureaucracy, with its own vested interests, may appear in the guise of 'owners' representatives', or in some other form. And within the same bureaucracy, it is not possible for the Treasury, the 'parent' ministries, the 'interested' ministries and other arms of government to call on a public enterprise to play different tunes all at once. In the ensuing confusion, public enterprises concerned may play their own favourite tune. In other words, any attempt to impose too many controls at the same time may leave the enterprises without proper control.

At the other extreme, a plethora of controls may be counter-productive from the point of view of managerial effectiveness and efficiency. Thus, when without the benefit of technical expertise and up-to-date information, the 'owners' interfere in day-to-day administration or constantly veto the manager's decisions, the future of the enterprise may be jeopardised. This is not to argue that all control measures are negative or dysfunctional. As the next section shows, there are different ways of controlling public enterprises and making sure that they are accountable to their 'owners'.

External Control of Public Enterprises

External control of public enterprises takes various forms – control through the legislature, political/ministerial control, Treasury control, external audit of accounts and management practices, and miscellaneous bureaucratic controls.

Legislative Control

One of the time-tested methods of making public enterprises accountable to external bodies is that of legislations control. As the embodiment of the people's will, parliament can legitimately claim to be acting in the name and interests of the owners' of these enterprises. It performs its role, first, by scrutinising enactments specifying the mandate of public enterprises, defining their structure, and outlining the preferred management and accounting systems. In addition to passing the draft legislation into enabling laws/acts, parliament exercises control over the activities

of the enterprises by making it mandatory for the enterprises to table their annual reports and accounts before it. Whether many of its members would be able to make sense out of the accounting information, statistical data, graphs and charts, is of course another matter. The accountants may worry about income and expenditure accounts, while the statisticians look at the statistical trends and projections with their magnifying glasses. For the majority of parliamentarians, what is likely to be of interest is the range of amenities and infrastructural projects located in their consitutencies.

In any case, legislative control is only possible where there are legislatures. In countries under military rule, alternative devices must be found to make sure that public enterprises are accountable to the public.

Ministerial/Political Control

The executive branch of government itself exercises control over the activities of public enterprises. Through the 'supervisory' or 'parent' ministries, it influences the structures and management practices of the enterprises. The tasks of the ministries responsible for public enterprise include:

- supervising draft legislation defining the scope of each enterprise, and following the draft up to the Ministry of Justice, and, where necessary, to parliament;
- recommending to government the appointment of some persons as chairmen and members of the enterprise's board of directors;
- participating in the selection of the chief executive and the top management team of the enterprise;
- serving as a channel of communication between the government and its agencies on the one hand, and public enterprises on the other; and
- exercising control of 'a general character'.

The first opportunity which supervising ministries have to control public enterprises comes at the inauguration stage. At the time when ideas are being floated as to the desirability for establishing a public enterprise, ministry officials are in a position to shape the destiny and general orientation of the enterprise. Apart from

examining ideas and collecting data from various sources, they have to ensure that an enabling law is drafted. The need to put the draft in proper legal/legislative language further entails their having consultations with the Ministry of Justice. The draft may travel back and forth over a period of time, but it is the duty of the supervising ministry to see it to the final stage of enactment. If the enabling law is vague on objectives or leaves too many things hanging in the air, the executive branch would have lost a golden opportunity to control the public enterprise concerned.

It is possible that after a public enterprise has been established, its management would wish to amend the enabling law to reflect changes in circumstances. Even here too, the supervising ministry would have to be closely involved.

Ministerial control of public enterprises goes beyond the framing of enabling laws. The appointment of the chairman and members of each public enterprise's board of directors provides yet another opportunity for ministerial control. In countries with civilian governments, the tendency is to reward political party stalwarts and loyalists with corporation board appointments. The military regimes go to the other technocratic extreme by turning corporation boards over to civil servants.

Packing corporation boards with political elements without regard to their aptitude and competence may hamper the development of the enterprise which they are supposed to control and direct. In the first place, the primary interest of pure political appointees is likely to be the material benefits of incumbency (contracts, fringe, benefits, jobs for kinsmen) and not the technical, and most often boring, aspects of the corporation's responsibilities. Instead of providing the much-needed leadership in the area of policy formulation, corporation planning, and programme evaluation, the political appointees are apt to cover the career managers' authority and functions. The political elements do have vital functions (apart from the strategic planning functions) to perform. First, they can represent the interests to their enterprise at the highest level of government. Secondly, their mere presence on the board confers political legitimacy on decisions taken by management. Thirdly, and as agents of the government, they are in a position to ensure that the decisions taken by the board and the management are in accord with government's overall policy. However, boards dominated by political elements tend to neglect these vital functions.

The general disillusion with the performance of 'political' boards has led to a shift in the direction of 'technocratic' boards. Especially in countries under military rule, corporation edicts and decrees are replete with references to the role of professional ministries and their permanent secretaries in the governance of public enterprises. It has in fact been pointed out that in one African country, one permanent secretary served as chairman of, at least, seven different boards, and

as a member of a dozen others. It is not just the burden of office which may prevent over-extended civil servants from acquiting themselves creditably as chairmen and/or members of boards. Their work experience in the civil service, their limited knowledge of the technical aspects of each public enterprise's functions, their general aptitudes and attitudes – these and many other factors are likely to diminish their effectiveness in the competitive world of business.

The point being made in the preceding paragraphs is that the selection of candidates for board appointments affords the government yet another opportunity to control the activities of public enterprises. After all, the board is expected to serve as the 'mind' of the enterprise. If the government wants a results-oriented enterprise, it must start with a results-oriented board. If performance counts for nothing, then it does not really matter who serves on the board.

Just as important as the composition of boards is the numerical strength and competence of the top management team. The calibre of the person appointed as chief executive (general manager, managing director or director general) will significantly determine the management style adopted in a corporation. His own success or failure will in turn, depend to a large extent on the competence and motivation of his immediate lieutenants.

Government may also control the 'brain' of the enterprise by determining the composition of the top management. At times, certain categories of appointments are classified as 'political'. They are political in the sense that politicians have a say in who holds such appointments, and issues of political sensitivity, loyalty, ethnic balance etc. have to be taken into account. Important as the question of loyalty is, government must not lose sight of the over-riding need for competence. A corrupt and/or inefficient General Manager is as much a liability as a disloyal one. As a matter of fact, 'loyalty' is in need of re-definition. It must now be defined to mean, among other things:

- ability to perform in a job duly offered and accepted; whoever accepts a job knowing fully well he is not up to the demands of the job is disloyal;
- devotion to duty;
- constant search for perfection of jobs and the models of carrying them out; and
- active concern for the public image of one's organisation and employers.

It is not only the politicians who seek to control public enterprises through the management teams. The civil service may wish to appoint as Chief Executive

someone with whom it feels comfortable. Thus, in its recommendations to the final appointing authority, the supervising ministry is apt to be biased in favour of candidates with civil service background and/or experience. While such a step might ease communications between the civil service and the public enterprise concerned, it may turn out to be the surest way to stifle innovation and obstruct risk-taking and entrepreneurial efforts in the enterprise.

If the appointment of the board of directors and of the management personnel does not yield the desired result – i.e. optimum ministerial control – the supervising ministry can resort to another method. The enabling laws of many statutory corporations almost invariably provide the exercise of control of 'a general character' by the responsible minsters. Unfortunately, instead of applying this legal clause to right general wrongs (such as the ill-advised policies and orientation in each enterprise), the ministers and their civil service advisers tend to focus on routine administrative matters – contract awards, recruitment and promotions of staff, and study leave privileges, etc.

Treasury Control

The power of the purse wielded by the Treasury is undoubtedly one of the most effective in regulating the activities of public enterprises.

Through the Treasury, the government gives grants and subventions to pararstatals. Funds may be allocated to off-set the short-fall brought about by government's policy on prices and incomes – a policy which may in turn affect the public enterprises' pricing and tariff policies. Grants may also be made to public enterprises' pricing which are essentially non-profit, welfare-oriented, or which operate under exceptionally difficult economic conditions.

The power to approve capital projects and underwrite loans serves as an effective weapon against non-viable projects. Perhaps if the power had been exercised earlier, it would have been impossible for many public enterprises to incur the huge external debts that are creating serious problems for many African governments today.

In general, if Treasury control is to be meaningful, it has to take into account the potential and actual contributions of each enterprise to national development, the efficiency of its management, and the various demands which government makes on the enterprise from time to time.

External Audit

External audit of accounts and management systems provides the government and the public with an overview of how a public enterprise has allocated the resources entrusted to it. In the civil service, the audit function is carried out by the comptroller and the Auditor General. His office, is however, beset with many problems. To start with, the office tends to be under-staffed. This makes it impossible for it to catch up with the backlog of work in ministries and departments. To expect the few overworked staff in the Comptroller's Department to audit the accounts of public enterprises may be asking too much. In any case, since they (the Comptroller's staff) have been trained to audit civil service accounts, they are likely to be ill-prepared for the business-oriented accounts in parastatal organisations.

Miscellaneous Controls

Government may control public enterprises in many other ways. For instance, it may veto decisions to raise tariff, or direct that the commodity prices offered to small-scale farmers be increased.

In countries which have adopted the unified salary and grading system, parastatal organisations may not:

- offer salaries higher than the nationally imposed ceiling;
- apply special incentives and motivation schemes; or
- take any personnel decision not covered by establishment circulars issued by a central ministry or Department of Establishments. Moreover, parastatals must comply with government directive on the 'freezing' of vacancies.

In the area of development planning, public enterprises are required to embark only on these projects which have been approved by the national planning authority.

These and other forms of ministerial control can serve useful purpose if they are designed to achieve specific objectives - such as the objectives of public

accountability, managerial efficiency and effectiveness – or if they are expected to contribute to the realisation of rationally defined social objectives.

Governments in Africa must be on the constant look-out for subtle attempts to apply the control measures to maximise narrow sectional, political partisan, or bureaucratic vested interests. Moreover, if the aims of establishing public enterprises are to be realised in our lifetime, positive measures must be taken to promote self-sustenance and 'self-management' in the various enterprises. The next section concentrates on aspects of government policy which need to be reviewed in order to foster the development of autonomous and well-managed parastatal organisations.

Balancing Control with Autonomy in Public Enterprises

Whatever problems there are in balancing control with autonomy in public enterprises are simplified by the fact that the weapons of control are also potential facilitators of autonomy and 'self-government'. Legislative control for instance, can be preceded by, and combined with, a clear articulation of objectives. Ministerial control can go hand in hand with careful attention to the selection of boards and management teams. Treasury controls are not antithetical to efforts designed to install sound management and financial control systems. External audits can proceed alongside internal audits. There would be no need to second-guess enterprise boards and managements (or take unilateral decisions which conflict with theirs) if government were to increase the opportunities for dialogue on policy decisions and the criteria for arriving at them. Let us examine these proposals one by one.

According to the Twelfth Inter-African Public Administration Seminar which took place in Ibadan in December 1973, the 'lack of a clearly understood purpose' was one of the factors inhibiting efficient performance in public enterprises. Almost invariably, enabling laws fail to specify the main reason for creating parastatal organisations, and rarely do these laws provide a guide for evaluating the performance of the organisations. It is not surprising that individuals within the organisations and without have taken advantage of this lacuna in statutes. Various organisation members frequently define objectives in ways which conform with their backgrounds and preconceived ideas. Outsiders – particularly, political elements – mostly view parastatal organisations as 'fruits' to be reaped by persons with power and/or influence. Others see the organisations as dumping grounds for out-of-work relatives, dead-woods, or political militants.

Clear articulation (by legislatures or those performing legislative functions) of the objectives and 'line of business' of each and every parastatal organisation would

go a long way in resolving the identify crisis facing organisations. It is not too late: the various corporation statutes may still be reviewed to reflect the new emphasis on results, achievement and innovativeness.

Selection and Renewal of Boards

After the objectives have been clearly defined, governments should proceed to the next stage of selecting competent persons to serve on boards. Emphasis should be on their general capacity. They should also be able to demonstrate their knowledge of, and interest in, their parastatal's line of business. For instance, parastatals responsible for costs and telecommunications ought to have on their boards persons with adequate knowledge of modern telecommunications technology. Above all, the renewal of the appointment of any board member whose term has expired and indeed, the life of the entire board, should be determined by the performance of the enterprise assigned to them.

Selection of Top Management Teams

Equally important is the recruitment of the right candidates for the top managerial and professional positions. The education, training, work experience, career history, aptitude and motivation of such persons are crucial to the success of the enterprise.

Also important is their feeling of 'managerial efficacy' - or what in ordinary language passes for 'self-confidence'. Parastatals certainly do not need arrogant chief executives who rub off on people the wrong way. Conversely, parastatals also do not require the services of individuals who keep running to the 'parent' ministry for every little decision. In order to motivate above-average performance, governments need to consider the possibility of contractual appointments for the position of chief executives of parastatals.

Installation of Sound, Results-oriented Management Systems

Parastatals should be encouraged (in fact required) to install a system of self-control and results-oriented management. Decisions on recruitment, training, postings, promotions, discipline and other personnel processes should be *purposive* or results-oriented. So should investment, production, marketing, procurement and operation decisions. It goes without saying that the accounting and financial

reporting system should in turn be designed to maximise the gains from internal self-control.

Financial Control and Accounting

In addition to installing results-oriented management systems, public enterprises should revamp their financial and accounting systems. The following areas should receive their urgent attention:

- *Credit Control* – parastatals should ensure that the amounts owed by their debtors are recalled in good time to forestall liquidity crises;

- *Record-keeping and Inventory Control* – this is a vital but frequently neglected area: unless the system of documentation is efficient, parastatals cannot rule out the danger of theft, misappropriation and mishandling of fixed assets and stocks;

- *Tendering Procedures* – governments must work with parastatals to devise effective tendering procedures, and ensure that the procedures are adhered to by all sundry;

- *Procurement and Supply Systems* – improved systems must be introduced from time to time, bearing in mind the special requirements of each parastatal and the environment in which it operates; and

- *Budgeting Systems* – a results-oriented budget is a precondition for the operation of a system of internal control and 'self-management'.

Internal Audit

In order to pre-empt fraudulent practices and call the attention of the chief executive to flaws in the accounting system (even before it causes irreparable damage) each parastatal organisation should strengthen its internal audit unit. The personnel of this unit tends to be among the least popular in the organisation, but a capable internal auditor is actually the chief executive's best friend. It is, after all, the auditor who will provide the lead in the operation of the Early Warning System that is part of a system of self-control.

Dialogue on Policy Decisions

Government and its parastatal organisations frequently find themselves on opposing sides simply because the two apply different criteria in arriving at decisions. On pricing/tariff policy, for instance, the government is likely to be influenced by non-economic, political considerations, while the parastatals emphasise market factors. The two sides consequently need a forum for the resolution of conflicts on such matters.

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(i) *Management of Public Enterprises*, Proceedings of the Twelfth Inter-African Public Administration and Management Seminar, AAPAM and Federal Ministry of Information, Lagos 1974

(ii) Ali El Mir, "Government Control over Public Enterprises: Current and Relevant Forms", Public Enterprise, Vol 2, No 4, 1982

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SOME ORGANISATION FACTORS AFFECTING THE PERFORMANCE OF PUBLIC ENTERPRISES IN AFRICA

Solomon Kagwe

Introduction

It has been observed in various fora that African governments have come to regard public enterprises as the prime movers of economic development.[1] In many cases these public enterprises cover a wide span of economic and social activities and include basic public utilities, infrastructure, industry, production of consumer goods, transportation services, marketing and trading operations as well as agricultural activities.

The reasons for this development have also been discussed widely. The independent African governments inherited colonial economies that were export-oriented and whose indigenous private sector was weak. Public enterprises were then perceived as agencies for enhancing indigenous participation in commerce and industry as well as a means for enabling the state to participate in distributive activities in the interests of national social justice and welfare. It has also been argued that the enormous and urgent problems of underdevelopment cannot be solved by the private enterprises alone, and that governments must complement their traditional caretaker and regulatory functions and involve themselves directly in the productive sector. This participation in productive activities would also permit governments to acquire a large share of the profit accruing from the profitable enterprises, such as mining and oil, for wider national development.

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1 See for example:

(a) Papers presented to CAFRAD Seminar for Management Personnel in Parastatal Organizations, Mombasa, Kenya, November-December, 1976

(b) Papers presented to Research Workshop on "The Development of a Model Training Programme for Improving the Performance of African Public Enterprises", Tangier (Morocco), 5-16 November, 1979

The establishment of public enterprises in many African countries was also justified on legal grounds which would enable a government service to be represented individually in Court for the protection of its own interests, just as if it were an ordinary commercial company. In certain cases, public enterprises were expected to manage their own budget with only limited interference, to recruit staff who were competent in their own fields and to organise themselves administratively in the most effective way.

Public enterprises were putatively established to serve as means of realising the aims of national development plans. As autonomous units, managing their finance according to commercial rules, employing specialised staff, but nonetheless sharing to a certain extent the power and the sovereignty of the state, they were perceived as ideally adapted to implement government policy in the sphere of economic development. Through them, the State would be in a position to assert its control over the economy.

It was further believed that public enterprises were especially well suited for the management of basic services essential to the national life; e.g. water and electricity supplies and transport services (airlines and railways). They could also be used to strengthen the economic independence of the country, whether by taking over foreign undertakings or by assuming responsibility for new industries.

By judicious creation of public enterprises in certain sectors, the government would be in a position to spread economic development of the country along certain chosen lines. It could, for example, give priority to heavy industry or alternatively to agriculture, with a view to pursuing a policy of national self-sufficiency.

Definition

Public enterprises in most African countries have appeared in three forms, namely, agencies charged with separate management of public utilities like railways, telecommunications, harbours, ports, roads and electricity; corporations that undertake commercial or industrial activities on behalf of the state, and lastly, state corporations. These differing forms have led to uncertainties about the definition of public enterprises, a problem which experts to a CAFRAD Seminar in December 1980 tried to solve by providing the following comprehensive definition:

> "An enterprise is public when: the state or any other national, regional or local authority holds at least 50 per cent. of the capital; it is under state control and reports to the State; its

> objectives are of public multidimensional nature. This multi-dimensional aspect pre-supposes financial investments, the marketing of products and services, financial returns, a system of business accounts and a social return which the enterprise must account for."

It is the type of enterprise that falls under the above definition rather than public utilities that has increasingly gained the attention of commentators, analysts and policy-makers because of its important role in African economic development.

Performance

The performance of public enterprises, however, has not matched the expectations of either analysts or practitioners. In a recent Meeting of Experts of the United Nations, it was stated that:

> "In view of the expansion in the size and complexity of government transactions and the attendant strain on public administration systems, the principal challenge facing government in developing countries is to improve the performance of their public sector."[2] The meeting further observed that "the case for greater efficiency and improved performance is further reinforced by the prevailing international economic conditions and their consequences for developing countries."[3] In a monograph entitled *A Profile of an African Public Service in the 1980s*, published by the African Association for Public Administration and Management, it is reported that "the performances of public enterprises have been the subject of considerable adverse public comments in Africa for some time. Even now the unfavourable reactions have not appreciably died down, even though most of

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2 Report of the Seventh Meeting of Experts on the United Nations Programme in Public Administration and Finance, Geneva, 17-26 October, 1984. p.6

3 Report of the Meeting of Experts, Ibid page 6

> the national governments have shown perceptible interest in seeing that the performance of those enterprises improve in the socio-economic sense. These criticisms have often been centred mainly on the manner of establishment of these enterprises, their internal management and the external control that is exercised over them."[4]

The experiences of nearly all African countries, such as the Sudan, Liberia, Swaziland[5] as well as Nigeria and Kenya to name only a few, indicate that the performances of public enterprises have been disappointing. Writing on the Nigerian experiences, Ojetunji Aboyade, for example, observed that:

> "The literature on the organization problems and operational performance of these public enterprises is a rich one and is still growing. What has generally emerged from these studies, analyses, reports and comments can be characterized as a story of disillusionment. Whatever the laudable aims and however high the hopes at initiation, one after another, the Nigerian enterprises have performed over the last two decades in a way that can only be described in polite language as disappointing. Not only has there been a low (indeed), often a negative, return to capital invested, the low quality of management has compounded the high incidence of direct ministerial intervention in routine operation of public enterprises. Poor internal administration and the pursuit, by arbitrary outside pressure, of non-economic policies of government had meant inadequate (and sometimes patently defective) preinvestment studies..."[6]

In his article on public enterprises, Chief Udoji quotes the Address of the Head of the Federal Government of Nigeria to the Working Party, appointed in 1966 on Nigeria's Statutory Corporations and state-owned companies which indicates that

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4 AAPAM A Profile of an African Publican Public Service IN THE 1980s (Addis Ababa) Chapter on Public Enterprises.

5 See Monographs on these countries by Moharir and Kagwe, Administrative Reforms and Development Planning in the Sudan and (mimeographed Report) 1976 in Liberia, 1978 and Swaziland, 1980

6 Ojetunji Aboyade, "Nigerian Public Enterprises as an Organisational Dilemma" in Paul Collins (eds.) Administration for Development in Nigeria, (Lagos, in 1980, p.86

the concerns expressed by Aboyade were shared by the policy-makers as well. In his Address it was stated that:

> "The present state of statutory corporations, state-owned companies and allied organizations has given the Federal Military Government some cause for anxiety. Sufficient time has elapsed to enable an objective judgement to be passed on whether or not these various organizations have creditably satisfied their objectives. The spate of public opinion in the last five years and more provide available evidence that these organizations have failed to fulfill their expectations."[7]

In the case of the Sudan, it has been observed that their public enterprises were characterised by:

> "...low level technology and the need of technology, the shortage of training cadres, the non-availability of adequate infrastructure such as transportation and electricity, the hasty execution of projects, without adequately prepared feasibility studies, the conflict between the demand for autonomy by the enterprises and the increasing centralized government control and the need to define more clearly the commercial vis-a-vis the social objectives of the enterprises."[8]

Thus public enterprises are faced with complex problems that adversely affect their productivity. Some of these problems are discussed below.

Imposed Management Technique

One of the problems that managers in Africa face is unworkable management techniques that have been transplanted wholesale from outside of the continent. Quite often, the socio-cultural contexts, and the technical-economic environments in Africa are vastly different from those of the industrialised countries. The classical managerial sciences hardly take into account the African value systems

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7 Quoted from J. O. Udoji, "some Measure for Improving Performance and Management of the Public Enterprises" in the Quarterly Journal of Administration, April 1970

8 See paper on Developing Problem-Solving Skills in Public Enterprises, CAFRAD Workshop, November, 1979

(extended family systems, for example) and a host of traditions and customs which had been inherited over the centuries. Looking at managerial philosophy in another context, a writer on Public Administration in Nigeria has this to say:

> "... a major consequence of its application of a managerial philosophy to governmental administration was that little or no attention was paid to the political context within which public organizations operate. Specifically, the activities that the new style of public servant is expected to de-emphasize are precisely those which constitute the hallmarks of those civil servants who are intimately involved in policy formulation."[9]

Managerial sciences in their Taylorist model have tended to define and solve problems in purely technical terms. Yet Africa is characterised by what ECA has described as "decades of political upheavals resulting in frequent changes in government than any other region."[10]

Consequently, public enterprises in Africa cannot be replicas of their counterparts in the industrialised countries.[11] The current attempts to seek relevant and indigenous management concepts and tools is indicative of the dilemmas that managers have faced in their earlier application of external models.

Objectives

Praxy Fernandes, in a CAFRAD Seminar, presented a formidable array of objectives that could guide the structure and strategies of public enterprises arguing that, without adequate clarity in the definition of goals and objectives, the structuring of management approaches and training contents would be vacuous.

Fernandes' list of objectives are the following:

- to adopt a fully socialist model of development;

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9 Ladipo Ademolekun, "The Public Service Review Commission", in O Oyediran (ed)

10 ECA Secretariat, the Role of the Public Sector in the Economic Development of African Countries (1979 CAFRAD Seminar, op cit)

11 John R Morris, the Transferability of Western Management Concepts and Programmes, and East African Perspective. (Bellagio Study and Conference Centre) 1976

- to control strategic sectors of the economy;
- to provide the requisite economic infrastructure;
- to control and manage the "essential services";
- to control the "commanding heights of economy";
- to manage and control "natural monopolies";
- to undertake tasks beyond the capability of private enterprises;
- to provide a competitive element to private industry;
- to develop backward areas;
- to stimulate the advancement of weaker sections of society;
- to increase the availability of essential consumer goods;
- to generate development;
- to develop technology;
- to generate foreign exchange earnings;
- to stimulate agricultural development;
- to commercialise activities traditionally run as government departments;
- to discourage the concentration of economic power;
- to utilise more fully economic resources;
- to control the exploitation of natural resources;
- to help stabilise prices;
- to take over the management of ailing private sector firms;
- to improve self-reliance;
- to improve income distribution;
- to favour or accomplish structural change.

This wide range of objectives tends to deprive public enterprises of the possibility of pursuing a common purpose around which resources, activities and personnel would be organised and mobilised. The divergent objectives have all too often tended to lead towards the pooling of efforts in different directions which could impose the effectiveness of the enterprises.

In addition, the abstract nature of these objectives might deprive them of operational significance.

The reasons for the absence of operational objectives included:

- the absence of a well-articulated rationale for public enterprises from which organisational objectives can be derived;

- typically weak corporation level organisations, where leadership for enterprise planning should be exerted, lack of strong planning units,

shortage of key managers who know enough about their products to feel confident to engage in objective setting exercise, lack of legal status, etc.

- the presence of budgeting system which discourages realistic planning; and

- the fact that so many key inhibiting factors are outside the control of enterprise managers - foreign exchange, transport, spare parts, electricity, price setting etc.

Control and Autonomy

A frequently cited problem in the management of public enterprises relates to the questions of autonomy and control. Again, Fernandes has graphically provided statements made by those involved in the management of public enterprises which are worth quoting in full:

A managing director of a machine tool company:

> "Why can't these bureaucrats leave us alone? Why must they interfere in everything we do? I have to answer questions on contracts, on appointments, on pay policy, on inventories, they may as well run this show as a government department. Why don't they leave us alone to get on with the job and then judge us by our results?"

A senior civil servant, a Permanent Secretary in one of the ministries:

> "What is all this exaggerated talk about public enterprise autonomy? There is a fundamental misunderstanding. If they are referring to managerial autonomy, by all means, they can and should have it. But if they are talking about policy autonomy this is another matter. We have created these enterprises, we created them with a purpose and our job is to see that they adopt policies consistent with the objectives set for them and in consonance with national goals. We cannot abdicate this responsibility."

A personnel director of an oil corporation:

> "Why am I allowed to negotiate suitable terms for my employees? I am in a competitive business, we require capable

people and we have to pay them with the market demands. We are being told that there should be a common wage policy for all public sector companies. How can this be? I can afford to pay, we are making profits. Many other companies cannot afford to pay, let them find their own salvation."

A Cabinet Minister:

"What do you mean that I cannot recommend a candidate for a job in one of the enterprises I control? I know he is a good man, a lot better than many of the managers they have. You say that we have delegated the power of appointments to the enterprises and that we should not interfere. Does this mean that I have less power than the Chairman of the company?"

A senior official of the Ministry of Finance:

"What are we going to do with all these public enterprises making losses? They come to us at the end of the year to cover their losses from public funds and then they are irritated if we ask questions about why the losses arose. They come to us for capital funds for expansion and new projects and they resent it if we want to have a say in where the money goes. After all, we have a responsibility to parliament.

An official of the Bureau of Public Enterprises:

"A chaotic situation has arisen, with each enterprise, in the name of autonomy fixing its own wage scales. Tensions are beginning to arise. We must do something to secure that there is equal pay for equal work. After all, the enterprises must remember that they belong to one family and the head of the family - government - cannot discriminate amongst its family members. Yes, of course, this must necessarily curtail to some extent the autonomy of companies."

A vociferous member of Parliament:

"Mr Speaker, sir, I am not satisfied merely to read all these annual reports, balance sheets and profits and loss accounts of the public enterprises. These companies are publicly owned, and

> I would like to know, sir, the inside story. What is going on inside the companies? What sort of lifestyles are these new barons of the public sector adopting? What about their expense accounts and their profligate entertainments? We are a poor country and they must set an example of spartan living in keeping with our economic donations."

An official of the Auditor General's office:

> "The real strength of our governmental system is that it operates as a system. There are rules, regulations and canons of propriety. But when we go to audit the public enterprises, where is the system? They tell us they need flexibility for business purposes, but who is to judge what is right and what is wrong in the absence of the rule book?"

According to Fernandes, these statements have been recorded from real life and have been made by specific individuals in India. The statements are, however, interesting for two reasons. First, they have their counterparts in Africa. Second, the statements bring to light the fact that a significant part of the managerial problems of public enterprises spring from different points from which public enterprises are perceived and defended. The relativity of perception with regard to control and autonomy was sharply brought to the forefront in a paper on *Government Control and Managerial Autonomy in Kenya Parastatals* in which it was stated:

> "...that official control of the Parastatals was excessive and that it inhibited performance in these organisations. On the other hand, a quick look at the pertinent sections of reports, such as the most recent issue of the Auditor-General, suggests that Government control of Parastatals is non-existent."[12]

Yet it has been argued that external interferences in the operation of public enterprises is a common experience. Indeed, the failure of public enterprises has all too often been attributed to political patronage in the appointment of board members and staff. Chief Udoji has for instance argued that in Africa, politicians seek success by becoming active and vocal members of the political party that has

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12 G.K. Kariithi, "Government Control and Managerial Autonomy of Kenya Parastatals" in African Administrative Studies, 19 July, 1978, p.57

a reasonable chance of coming to power. If the party wins they expect their reward in paid employment. Because of the rigid traditions and procedures of the civil service, politicians are unable to tamper with the service, but they find no such restrictions with corporation staff.[13]

It is for this reason that it has been found necessary to provide a suitable degree of autonomy to public enterprises in order to enable them to function effectively as business concerns. Together with the fear of political interference, the search for autonomy has also originated from the fear of bureaucratisation with all the connotations associated with this process, namely, "slowness", circumlocution, caution, excessive deviation of routine and precedent."[14]

Public enterprises should not be just another department of the government. Government departments have been regarded as too inflexible to permit effective management as the necessary distinction between economic enterprise and other government services may be blurred. Public enterprises also have needs, from the management and financial point of view, which are incompatible with a purely administrative structure. In most countries, the vital method of financial control is the system of annual provision voted by Parliament. A public corporation run as a government department can be compelled to use the same system and cannot retain the unused balances in its votes, nor the miscellaneous revenues which appear in its accounts at the end of its financial year; it has to pay all these into the Treasury and apply for new votes.

What is more, budgetary control is a barrier to all long-term financial commitments and prevents any expansion in the service which may be necessary to make way for unexpected increases in demand. This is unfortunate; indeed there is no reason to assume that an unexpected increase in expenditure to meet fresh demand from the public will mean the loss of government money in the long-term. In many cases, individual transactions have to be approved in advance by a representative of the controlling Ministry, and this inevitably slows down business.

Lastly, the search for autonomy from government has been based on the observation that there are numerous strict regulations on the purchase of equipment and on contract procedure, designed to prevent the loss of government money

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13 J. O. Udoji, Some Measures for Improving Performance and Management of the Public Enterprises (Asia Publishing House, Bombay) 1962, p.3

14 A. H. Hanson, Managerial Problems in Public Enterprises (Asia Publishing House, Bombay), 1962, p. 3

through extravagance. These regulations are often in conflict with current commercial and business practice, and they hamper that exercise of initiative and personal judgement which is essential for the effective management of any business. Thus, the traditional government system limits the possibilities of managing an enterprise on an autonomous financial basis, since government activity can seldom be made self-financing. It usually has to be paid by general taxation rather than from fees paid by the users of the service.

At times, what may be perceived as political interference in the operation of public enterprises may arise from the requirement for accountability. Most of the public enterprises were established by the State which is the majority, if not the sole shareholder; public funds have been invested in it and the State, therefore, has the right and the duty to control their utilisation and also to ensure that the economic and social objectives are fulfilled. This control is exercised by the sponsoring authorities at the level of investment policy, price-fixing decisions, salary (and other connected advantages), policy, the definition of objectives and the recruitment of top personnel for the enterprises.

This type of control is specific to the public enterprise which must report in one form or another to Parliament and to various other interested groups.[15]

The reaction against excessive government interference may lead to the abandonment of all control over the public enterprises and this may be dangerous. If an enterprise is set up outside the normal administrative structure of the country, it may expect to be freed from ministerial direction or control, and this would need to be avoided. Freedom from political control may well mean that the true power of decision has been placed in the hands of a small group which is, in the long run, responsible to no one but itself.

Internal Organisation

Personnel

It has been observed in many African and international meetings that there is a general correlation between the backgrounds of the Chief Executive and the effectiveness of public enterprises. The appointment of specialists, for example,

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15 See "Elements of a Model Training Programme aimed at Improving the Performance of Public Enterprises in Africa" (CAFRAD), July, 1981

in enterprises related to sugar technology has been defended on the ground that the training and background of a specialist in sugar technology would help him as General Manager to appreciate, supervise and guide the sugar factory and field operations. On the other hand, the formal training and education that such specialists may have received did not sufficiently prepare them for managerial roles and for functions related to personnel, finance and sensitisation to social problems.

The ascendency of specialists top positions has been well established in countries like the Sudan and this has certainly helped in realising higher production and solving some technical problems. However, the pendulum seems to have swung too far towards the reliance on technologists while managerial functions of personnel, finance, industrial relations, and planning are not developed to their rightful stature. It has been observed that administration and higher management are not as specialised as some of the technical operations and can be mastered and practised by anyone without a specific background or training. This has led to the concern for grounding organising, motivating, human relations, inventory control and materials management and sensitivities to the adjoining socio-cultural environment, as these are the main functions which occupy most of the time and attention of top management personnel.[16]

Public enterprises have been criticised for poor personnel selection, recruitment, and promotion in which political spoils systems play a considerable part. Political allies or relatives may be placed in senior positions without any suitable qualifications or experience, with the consequence that such persons tend to rely on favours and not on their performance and competence. This has implications for morale, discipline and managerial control and ultimately for the performance of the enterprise as a whole.

Attention has also been drawn to the problem of excessive personnel in many public enterprises. Overstaffing affects adversely both the budget and performance. In the absence of a manpower plan, the required staff strength is not established and is not unusual to find a surplus staff of nearly 20 per cent in many public enterprises.[17]

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16 See Moharir and Kagwe, Administrative Reforms and Development Planning in the Sudan (mimeographed report), 1976

17 Observation based on Study of El Guineid Sugar Factory in the Sudan, Maharir and Kagwe, op. cit. p. 96

Overstaffing is frequent in many factories, partly linked to high absenteeism which forces management to maintain a larger labour force than necessary. Labour regulations have also made it difficult for the companies to reduce their workforce. Workers receive a permanent employment contract with the enterprise upon completion of one provisional year. Dismissal is generally prohibited, although management evidently is free not to replace departing workers. Indeed, because of social and political pressures, the enterprises are compelled to maintain the level of their workforce. This has two kinds of results - one is the continued operation of uneconomic units whilst the second is the lack of positive action to reduce force even when it is recognised that the level of manning is grossly excessive.

Resources, Finance and Accounts

Many African public enterprises suffer from severe shortage of foreign exchange as they has led to shortages of imported raw materials and spare parts. In the study[18] on two sugar projects in the Sudan, for instance, it was reported that more than 1,170,000 Sudanese pounds were spent in 1972-73 on importing spare parts in Kashm E1 Girba and E1 Guneid Sugar factories. Many vehicles of the transport fleet were often not in working conditions due to non-availability of spare parts. In April 1976 in Girba, out of 76 tractors, 21 were not in operation. This affected productivity of the project. The existing procedures for ordering of the spare parts were also time consuming. This project could not place an order directly with the dealer, even if the budget provision had been made.

Internally many public enterprises inherited financial management of ministerial type emphasising the propriety of expenditure rather than a modern financial management which is suitable for a commercial enterprise.

Conclusion

It is necessary to monitor and evaluate the socio-economic conditions as well as managerial and administrative circumstances that affect public enterprises. Without this capacity, the policy-makers and other authorities responsible for public enterprises will have no means of assessing the scale and trend of the problems facing public enterprises or the degree of success with which these problems are

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18 Moharir and Kagwe, op. cit. p. 102

being tackled. This work needs to be institutionalised at national and continental levels as a standard operating procedure.

Research work needs to be conducted on an integrated or holistic basis. The linkage of such research to implementation of its results would need to be considered explicitly as there would be no need to conduct holistic research programmes if the results are then fed into a totally sectoral decision-making and budgeting system, which cannot cope with information and proposals at a level of integration.

A good deal of research in public enterprises has hitherto been done mainly by foreign experts who were not familiar with the local environment, including its socio-economic cultural norms. There is now need to nurture and develop indigenous research capacity and concepts that have so far been in short supply. The results of such research need to be adequately publicised through documentation centres. A great deal of research is conducted by consultants and academics whose findings are buried in inaccessible or foreign documents. One of the principal areas of concern here is to demonstrate the success or failure of particular public enterprises and innovations.

Training requires a new look in the light of the results of research. The aim of the training could be human resources development – the transfer of skills, experiences and knowledge to all those connected with the management of public enterprises.

This training should stress integration so that where technical specialists are being trained, they are given an awareness of how their subject relates to others. Thus, while not neglecting the claims of specialisation, the inter-dependence of all subjects would be taken into account. It is necessary that training be done, as far as possible, in Africa as this is the environment in which trainees work, or will eventually work. While training needs to be undertaken at national level, a good deal would be gained from training at sub-regional and at continental levels in order to facilitate the exchange of experiences.

As far as possible, training should be problem-oriented, aimed at overcoming bottlenecks, and practical. Trainees should be involved in the preparation of case studies as a part of their work and exposed to working together with people from other skills. These should be a thorough mixture of theory and practice. Training should be tailored to different target groups that should include ministers, chairmen, General managers, and technical staff according to their needs.

11

IMPROVING PERFORMANCE THROUGH THE MANAGERIAL CONTRACT SYSTEM: THE SENEGALESE EXPERIENCE

Dia Abdul Aziz

Introduction

The world today is undergoing an unprecedented economic crisis and, as usual, the economies of developing countries in general and of African countries south of the Sahara, in particular seem to be the most affected. Everywhere, adjustment policies recommended by the International Monetary Fund and the World Bank are being implemented.

However, the anticipated results are never obtained because the proposed policies only deal with phenomena such as the adverse balance of payment of the countries, total wages, prices etc. These policies which are effective for correcting economic imbalances are generally ineffectual in the face of the structural defects of the countries economies. Senegal is at the moment implementing an economic recovery plan. It should be observed however, that the primary condition for any economic and financial recovery is efficient and effective management of the public sector especially of the parastatal sector. One of the selected ways for improving the performance of the parastatal sector is the establishment of contract plans which is the main subject of this paper.

The Private Sector and the Public Sector

Private Sector

Nature

The private sector in Senegal dates back to the colonial period and has the following characteristics which exist side by side:

- private companies which are branches of parent companies located in the big commercial cities of France;

- small- and medium-scale Senegalese enterprises;
- mixed companies owned jointly by foreign and Senegalese entrepreneurs; and
- branches of companies of North American and other countries which are increasingly being established in Senegal.

The establishment of foreign companies in Senegal has been influenced by certain factors, including:

- the political stability of the country;
- the numerous benefits in the investment code; and
- the possibility of repatriating profits.

Objectives
The objectives of a private business are to make profit or in other words to generate profits from invested capital. As such, only the profitable sectors of the economy are of interest to potential investors. A private company which is unable to attain these objectives is bound to fold up one way of the other. Such is the established law of the business market.

The Parastatal Sector

Nature
The definition of 'public enterprise' is often the subject of debate among specialists. In our view, a public enterprise is one in which the government holds a part or the totality of the registered capital. However, businesses in the parastatal sector can be classified in accordance with their legal status, their areas of activity and the level of their finances etc.

In Senegal, the parastatal sector comprises:

- public enterprises;
- national companies;
- semi-public companies.

Public Enterprises

These are of various types, including:

- industrial and commercial public establishments;
- administrative public establishment.

Public enterprises are governed by public law. Their capital is subscribed entirely by the state and they are subject to a prior and a posterior control, except by special exemption.

National and Semi-Public Companies

The government holds the totality of the registered capital of national companies but subscribes only to part of the capital of semi-public companies. National and semi-public companies are governed by private law. They should be managed as private companies and are not therefore subject to a prior control.

Areas of Activity

National and semi-public companies participate in all areas of the Senegalese economy. As such, their sphere of activity include:

(i) administration;
(ii) public services;
(iii) research and studies;
(iv) industry and commerce; and
(v) finance.

These companies can be classified in accordance with the volume of their registered capital, the level of investments, their turnover, the number of employees, and their contribution to gross domestic production, etc.

Objectives

The objective of public enterprises is not to make profit as in the private sector, but to meet the needs of the people. Most public enterprises are often obliged to undertake social investments which are unattractive to the private sector. This means, therefore, that the cost of goods or services offered by the public

companies are often far higher than the cost price. As such, there is usually a deficit within the system which has to be made up by state subventions.

Problems and Performances

In addition to the problems of pricing, public goods and services, there are those related to the internal management of these companies and the modes of financing their activities. Within the companies, the use of archaic or obsolete techniques and technologies, poor management of manpower leading to very high staff costs and incompetence of most directors are the order of the day.

Financially, resources to government subvention to balance accounts and the high level of external financing (credits and subventions for projects) often challenge the very existence of these companies. These external and internal problems have negatively affected the performance of public companies. For example, it was observed during the preparation of the economic recovery plan, that the parastatal sector was badly managed. As such, it was unable to make the economy, the full contribution expected of it.

Solution

A solution should therefore be found for better management of the parastatal sector. Economic and financial recovery can be achieved only if the sector which accounts for 41 per cent of the Gross Domestic Production of Senegal is managed efficiently.

Several solutions have been attempted including:

- a call for competent managers;
- introduction of new management techniques such as management by objectives, better manpower management, rationalisation of procedures etc; and
- establishment of programmes of assistance to the parastatal sector (training, setting up of structures etc).

However, one of the major innovations is undoubtedly the introduction of contract plans.

Contract Plans

There is a contract plans unit within the General Secretaries of the Presidency of the Republic of Senegal. It undertakes preparation, application and evaluation of contract plans signed between government and public enterprises.

Principles

The Government formulates public enterprise objectives. These objectives can be qualitative (improvement of management, financial recovery, etc.) or quantitative (expansion of business at a well defined rate, reduction of structural deficit, etc.).

They should, as much as possible be quantified, so that evaluation can in most parts, be based on the analysis of the difference between estimates and achievements within the scope of the contract.

(a) The duration of the contract is three years. The contract plan can be renewed on the basis of the results obtained.

(b) The task of the enterprise during the contract period is defined very specifically. These tasks may be expanded or reduced depending on government objectives.

(c) The contract plan defines the obligations of the public enterprise, which may include *inter alia:*

- (i) commitment to achieve balanced management through the control of operating expenses in general and of staff expenses in particular;
- (ii) re-organisation of the financial situation;
- (iii) marketing and promotion activities;
- (iv) strict application of government tariffs; and
- (v) adherence to provisions under new investments.

(d) The contract plan also defines the obligations of the government vis-a-vis the signatory company as well as with respect to administration and finance.

Assistance from government is explicitly stipulated in the contract. The nature of the assistance depends on the type of company and the nature of its problems. The Government provides the company with financial assistance as well as facilities which would enable it to attain the set objectives. Financial assistance could range from an increase in capital to the guaranteeing of loans contracted by the company.

Finally, other provisions are made in the contract depending on the type of company and the nature of its activities.

Experience of Contract Plans

The contract plans policy is new and has been tried in only four enterprises, namely:

- "Office des Habitations a Loyer modere (O.H.L.M.)";
- "Societe Nationale de Eeux et Electricite des Senegal (SONESS)";
- "Societe de Transport du Cap-vert (SOTRAC)".

Evaluation

A joint committee, headed by the Chairman of the study group on the parastatal sector (GESP) and comprising representatives of the contracting company, government supervisory bodies and the Organisation of Methods Office (BOM) is responsible for preparing, implementing and evaluating contract plans. Although, it is too early to draw general conclusions on the implementation of contract plans, a partial evaluation was made of SOTRAC and SAED with a view to making the necessary corrections and adjustments to the system.

S.A.E.D.

In the case of the S.A.E.D., the set objectives were not attained, due to the following reasons:

- lack of dynamism on the part of the company's managers;
- distrust of peasants vis-a-vis the introduction of new techniques; and
- failure by government to honour its obligations (finances were not provided).

SOTRAC

Contrary to the S.A.E.D situation, the results of SOTRAC were beyond expectation.

The structural deficit of SOTRAC was in fact reduced by half, falling from CFAF 900 million to CFAF 423 million, only a year after implementation of the contract plan system.

As a result of the government subvention of CFAF 900 million, SOTRAC had a credit balance for the first time in its establishment.

These results were obtained mainly through the competence and dynamism of SORTRAC's managers, improvement of its management, constant increase in demand and especially, through the honouring by government of its commitments.

General Conclusions on Contract Plans

The partial evaluation of the contract plans policy as undertaken, do not provide all the information which would justify any generalisation to the entire parastatal sector.

The contract plans system is worth trying because, it makes it possible to identify the real problems of the parastatal sector and to find practical solutions to them. It provides management with objectives and through constant evaluation helps avoid shortsighted orientation as well as trial and error.

The success of the contract plans policy depends essentially on:

- a clear and precise definition of the overall policy on the company's area of activity;
- a clear definition of quantified objectives which can be specifically assessed;
- respect by government of its commitments;
- real autonomy in management of public enterprise managers who should be selected on the basis of objective criteria; and
- existence of reliable and credible basic data.

Conclusions

In this chapter, a quick comparison has been made between the private sector and the parastatal sector in Senegal. This has made it possible to highlight the difficulties faced by public enterprises and the various solutions recommended for improving their management. Among these solutions, particular emphasis has been placed on contract plans.

The policy of contract plans, although recent, seems very promising. Senegal's experience in this connection should be studied by other African countries, in view of the similarity of the problems posed.

12

WORKING CONDITIONS AND MOTIVATIONS IN PUBLIC ENTERPRISES IN AFRICA

Ibbo Mandaza

Introduction

The title of the chapter itself raises fundamental questions about Africa's current economic condition, the root causes of it and the basis upon which progressive transformation can begin. The question of working conditions and motivations is therefore but a manifestation of this larger problem that can best be examined in the contest of the dialectical relationship between economic dependence on the one hand and the fate of public enterprises in Africa on the other hand.

Critics of public and private sector organisations in Africa draw their inspiration from the traditional and ideological standpoint which emphasises a dichotomy between private and public sectors. According to this view, the private sector is inherently efficient, surplus-generating and therefore able to provide good working conditions, incentives and motivations towards even higher levels of productivity. It is argued that these are the conditions which, in turn, generate in the employee an optimum level of commitment and loyalty to the organisation. But the emphasis is always placed upon the functional relationship between the organisation's capacity to generate surplus and high profits on the one hand; and on the other, therefore its ability to develop working conditions and a set of incentives which altogether generate and establish in the functionaries the kind of motivation – individual and collective – that is viewed as the basis of the success of not only the private sector itself but capitalism in general. The vital importance of labour as the basis of all wealth is, of course, seldom recognised in such ideological thrusts and analyses.

By contrast, however, the public sector is viewed as both unproductive and therefore capable of neither good working conditions nor motivations. The dichotomy is, of course, general and all-embracing, relentlessly imposed on both developed and developing countries. But it is in the latter that the dichotomy between 'public' and 'private' *appears* credible and justified.

To paint such a picture as I have done is, perhaps, an over-simplification of the problem. But it does help to highlight the tendency, among many analysts, towards developing such an obsession for the manifestations of the problem, which does not help us understand its historical and economic bases. It is easier to describe and lament about the conditions of under-development and dependence without, however, recognising and understanding the conceptual and historical aspects that underline these terms. Furthermore, this failure to conceptualise and explain reality in turn gives rise to wrong and misplaced prescriptions.

The Objectives of Public Enterprises

It is appropriate to outline briefly the historical basis and objectives of public enterprises in Africa; and thereby perhaps, place this discussion in its proper context. The objectives of public enterprises are varied but fall within the overall and broad objective of state intervention in the economy, in the interests of the welfare of the general public. A. Choksi[1] has provided us with the following partial list of the objectives of public enterprises:

1. provide entrepreneurial support/substitution
2. control monopolies
3. control commanding heights
4. provide public services
5. earn profits for investment
6. utilise resources efficiently
7. prevent business failure
8. offset externalities
9. train skilled managers and technicians
10. decrease unemployment
11. raise output
12. reduce income inequality
13. provide regional development
14. stabilise prices
15. subsidise necessary commodities
16. set modernisation example
17. earn/save foreign exchange
18. provide primary exports

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1 State Intervention in the Industrialisation of Developing Countries: Selected Issues, (Washington, 1979), cited in Ernest J. Wilson, "The Contested Terrain: A Comparative & Theoretical Assessment of "State-Owned Enterprise in Africa", The Journal of Commonwealth and Comparative Policies, vol 22, No. 1, March, 1984, p.6

19. achieve socialism
20. counterbalance power of domestic capitalists
21. increase national self-sufficiency
22. enhance national prestige
23. implement government policy
24. promote national security
25. offset multinationals

There will be varying degrees of emphasis on the part of individual African countries on one or another of such objectives as are listed above, depending on the declared political ideology of the country concerned. Some African countries have emphasised the role of public enterprises as part of the transition to, or agency for, socialism. Others insist that public enterprise is but an extension of the state into the private sector, giving rise to the concept of privatisation of the public enterprise or state capitalization. It is in the latter respect that the increase in the number and expansion of public enterprises can also be viewed as the extension of the African petty bourgeois ruling class, ensuring thereby that all the major actors get at least a piece of the cake. But as one writer has indicated:

> "the cross-national variation that we find in the scope, structure and performance of public corporations can be explained by the degree of differentiation within the African social structure, and the character of foreign corporate expansion within the country."[2]

However, what is true of Africa as a whole is that public enterprise has loomed large, if only because of Africa's colonial experience; the almost complete appropriation of its economy by foreigners; the consequent undevelopment of its managerial and entrepreneurial skills; and in turn, the general weakness of its political and state structures. Kenya, and particularly Zimbabwe, are sometimes seen as the better examples in this scenario of dependence and underdevelopment, at least with respect to the extent to which white settler colonialism gave rise to a vibrant relationship between private and public sectors, both of which are strong (but not dichotomised). But, as the case of Zimbabwe will illustrate, the problem has been how to indigenise effectively the public and private sectors, both of which have been historically confined to the white settler community, directly as heads of the public sector and indirectly as representatives of multinational corporations which dominate the private sector and the economy as a whole. The political

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2 Frnet J Wilson. op. cit. p 3

imperatives therefore become as important as the economic ones in the general policy on public enterprises.

But the average African country has had to develop public enterprises almost inevitably, given the low level of development of productive forces, the relative absence of a private sector and the lack of managerial and entrepreneurial skills. The question of choice – private or public – does not really arise; it is, as one writer has aptly summarised it, simply how best Africa can live with these public enterprises:

> "It is no longer adequate to describe the role of public corporations in the economies of developing countries as 'important'; their role can only be accurately described as 'vital'. Public corporations in developing countries now handle most of the important exports; they control the banking systems and insurance; they use pioneering industrial as well as commercial agricultural development; they control important services like electricity, railways, harbours, etc. and more recently important goods and commodities. Their efficient and successful management is, therefore, of supreme importance to the entire population of Africa. There are continuing and sometimes heated debates all over Africa about their management as well as unplanned and often disastrous experimentation on the scope of their activities... The continued growth of developing nations in Africa depends to a very significant extent on how efficiently the mushrooming public corporations are managed." [3]

For some of us it is very easy to establish a close relationship in Africa between the colonial heritage and the under-development and scarcity of managerial skills on the one hand and the inefficient and poor management of public enterprises on the other. In fact, not only the general failure of public enterprises but also the very demise of African economies can only be explained and understood in the context of an examination of imperialism, colonialism and neo-colonialism. It is not that the Africans themselves – particularly the ruling petty bourgeoisie – are extraneous to this situation. But it is simply to emphasise that only by understanding and appreciating the reality of the African situation can we begin to change it. Indeed, unless we examine more closely the historical and socio-economic background of our current situation, our proposed solutions on this or all of the issues relating to public enterprises might end up as mere platitudes.

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[3] Frnet J. Wilson, op. cit, p 3

The False Dichotomy Between Private and Public Sectors

The foregoing indicates why the subject of Working Conditions and Motivations in public enterprises becomes not only difficult to discuss but almost impossible to conclude with any set of meaningful recommendations. On the level of platitudes, it is, of course, simple to recommend that unless the Conditions of Service, salaries and benefits for public servants are improved to a level comparable enough to those of the private sector, there will never be an improvement in the management and operations of public sector. But this does not explain why in the first place there should be this distinction between public and private sectors nor why the latter should always be so dominant in Africa.

The irony of it all is that the problem would be perhaps more easily resolved were it that the public and private sectors were as dichotomised as is popularly thought. The point is that both exist in an economy that is essentially capitalist and integrated into the international capitalist economy. Needless to add, therefore, the fiscal and wage policies – and indeed the economies – of African countries cannot ultimately be decided upon in isolation from this relationship of dependence upon international capital.

At the end of the day, it would be more correct to say such policies – and even this current trend towards the privatisation of public enterprises – either emanate from or are influenced by the policies of international financial institutions and the leading governments of Western Europe and North America. Both this trend and the direct influence of these forces on African affairs become more emphasised in this decade of world recession and the particular and devasting effect it has on the dependent economies of Africa and the Third World. But it implies and demands that the periphery adopts neither the necessary resources nor the careful consideration of political consequences of such strategies. It becomes a vicious circle that further reinforces the relations of dependence; and thereby undermines the political and economic initiative of African countries.

What is often forgotten is the dialectical relationship – and not a dichotomy – between the private and public sectors, in much the same way as the relationship between the developed and developing countries. The private sector exists and thrives, if it does, in African countries at the expense and with the assistance of the public sector. This emphasises the role of the state in a capitalist economy and in the era of the dominance of international capitalism.

The role of the state in neo-colonial Africa is not simply synonymous with the role of a self-interested petty bourgeois class; but more importantly, the state seeks to maintain law and order and a level of administrative capability to facilitate economic and social activity. The various ministries and instruments of state, in fact, facilitate the operations of both the domestic private sector and foreign business and economic interests. This is easily understood on an examination of the terms of reference, structure and functions of the various departments of government and the public sector. But all this also explains why imperialism, and on its behalf the intervention of respective foreign powers, will seek to ensure the minimum of administrative capacity of such countries in Africa as are considered to be key, in terms of the major considerations of the economic and strategic objectives of international capital.

The Inherent Limits of Privatisation in Africa

But the major question to be answered relates to whether or not Africa has the capacity to privatise and therefore accept and shoulder the political consequences of such a strategy. It is almost two decades now since the debate began in African academic and political circles as to whether or not African countries could adopt a non-capitalist road to socialism. It was the belief that this was possible that led to such declarations as the Arusha Declaration of 1967. Yet others argued that Africa was in fact part of the capitalist world and that therefore the question of a capitalist or non-capitalist road to development and socialism (however one defines the latter) does not arise. But since then, history has taught us not only that Africa cannot develop and socialise in this era of dominance of international capital; but also that because of its dependent status, Africa has no capacity whatsoever to develop a fully-fledged capitalism.

It therefore raises the question of whether or not Africa can privatise in response to, and to the extent that, international capital demands it. Furthermore, if so, as is the case with the allegedly more successful capitalist models in Africa, what are the political implications of such strategies ? There is no doubt, for example, that the capitalist sector in such countries as Kenya, Zimbabwe and Ivory Coast have become successful by the standards of international financial institutions.

Indeed the level of privatisation of public enterprises in such countries as Zimbabwe has been quite high and even compete very favourably with similar operations in the private sector. Likewise, these public enterprises have shown the capacity to develop a high level of managerial performance, produce profits, and are therefore able to offer better conditions of service and higher salaries than

those offered to counterpart personnel in both the private sector and in government service.

Furthermore, there is every possibility, too, that some African countries could, depending on the level of development of both the productive forces and capitalism in general, streamline the size of the public sector, institute effective and intensive training programmes and therefore offer conditions of service, salaries and benefits comparable to, and even exceeding, those of the private sector. In fact, I would go so far as suggesting that this is the only basis upon which an efficient and motivated public sector can be maintained in those societies that have either decided on or have had to accept the capitalist road to development. However, all this does not constitute development, which means liberation from the conditions of exploitation and oppression. Nor will the mass of the people of Africa forever appear passive while the conditions of their existence continue to deteriorate to the benefit of a few comprador elements and their masters in Europe and North America.

But as an examination of the average African and Third World Country will show, there are obvious constraints in the attempt to implement a strategy. First, there are the political imperatives: the need to bring to as many people as possible the limited economic and social benefits that were promised at the attainment of national independence. As has already been referred to, these are partly the imperatives that have led to the increase of public enterprises; not to mention the growth of the public service in the period after independence, the rapid expansion of such social services as education and health, and the consequent strain that all these impose on the material and economic resources of the country. Not surprisingly, therefore, it is precisely those African countries that have had to meet the political and social imperatives of the post-colonial era that have had to pay the high price of economic recession and decline. It is a background of havoc and devastation that has now prompted international capital to go on the rampage, demanding privatisation as a precondition for credit and survival. Similarly, it is not surprising now that international financial institutions see the current situation as the basis for a new offensive of privatisation of public enterprises. Years ago, the tendency of international capital was to emphasise the dichotomy between public and private sectors, emphasising the latter as the panacea of world development. But there has now developed a realisation that, in fact, Africa has no choice but to resort to public enterprises as the agency of development. The strategy now is to induce and promote privatisation of these public enterprises and therefore achieve the same goals through the back door and under the guise of the popularly accepted conception of public enterprises that was outlined above.

The Problem of Working Conditions and Motivations

The second major constraint to privatisation of public enterprises is specifically economic and relates to what I described earlier as Africa's lack of capacity to develop a fully-fledged capitalism. This is a factor which logically affects and limits the extent to which public enterprises can improve the working conditions and levels of motivation. The Report of an International Centre for Public Enterprises Expert Group Meeting recently highlighted this dilemma and underscored the overall dominance of internal capital in the economic policies of developing countries.

> "Wages and benefits, taken cumulatively for public enterprises in general, have profound effects on the national economy. Higher wages unaccompanied by matching productivity increases contributes to inflation, cause a shortfall in the revenues of the government, and can bring down the level of investments thus proving a hinderance in achieving pre-determined rates of economic growth. Investments are employment-generating and, therefore, any slow down in investment will have an adverse effect on the level of employment." [4]

Yet in the same breath, the Group also emphasised the need to improve the conditions of service of public enterprises.

> "The prime objective of a wage and remuneration policy for public enterprises was admitted its ability to attract, retain and motivate competent personnel at all levels to ensure the efficient running of an operating enterprise or the completion of a capital project within the time and cost targets." [5]

But the extent to which such policies are controlled by the state will vary from one country to another, the principal factors determining such policies being amongst the following:

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[4] "Wage and Renumeration Policies in Public Enterprise", *Public Enterprise*, Vol 3. No. 2, 1982. p. 11

[5] Ibid. p. 11

- political structure and ideology of a country and consequently, its impact on economic activity;
- extent to which economic activities for all sectors are centrally planned and of wage regulation by the state;
- relative size of public enterprises in the total gross national product and specific sectors thereof;
- role and capacity of the workers in the management of economic enterprises;
- function, organisational ability and strength of trade unions.[6]

At any rate, the Group acknowledged that wages and conditions of service were not enough. Motivation could best be raised through an education programme for both management and workers, and such a programme to include inculcation of a sense of patriotism and responsibility amongst all employees, emphasis on a participative style of management featuring greater worker involvement in the affairs of an enterprise, and an intensive exchange of information with the surrounding community in which the enterprise is located.[7]

Conclusion

In short, managerial training and human resources development is a necessary precondition and basis for Africa's economic recovery and development. But programmes of training must have a political content that seeks to explain the historical and economic basis of Africa's current malaise. Only through an understanding of imperialism, its impact on Africa and the resultant class structure and social relations of production, can Africa begin to manage, administer and develop effectively. For the highest level of motivation is that which is generated and attained in the correct analysis of Africa's political economy; and, therefore, the consequent genuine commitment to the struggle for the resolution of problems that currently confront our continent.

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6 Ibid p. 12

7 Ibid p. 30

13

WORKING CONDITIONS AND MOTIVATIONS IN PUBLIC ENTERPRISES IN THE GAMBIA

S. M. B. Fye

Introduction

This chapter examines the nature of the working conditions in some typical public enterprises in The Gambia, and discusses the factors which constitute the primary sources of motivations for the employees. To see the issues and factors raised in their true perspective, it is necessary to appreciate what motivation is and can do, and to understand the concerns and characteristics of the typical employee whose motivation is so vital for an organisation's progress and efficiency.

The primary task of any manager of a public enterprise is to ensure that the organisation functions effectively. To achieve this goal, he has to ensure that subordinates and staff in general work efficiently and produce results that are beneficial to the organisation. Every action a manager takes in an enterprise stimulates a reaction in employees which can either be positive or negative. Positive motivation, sometimes called 'anxiety-reducing motivation' or 'the cannot approach', offers something valuable to the person and this may be in the form of a pay rise, praise, permanent employment or other rewards. Negative motivation, often called the 'stick approach' uses or threatens punishment and may include reprimands, threat of being fired and demotion if performance is unacceptable. Each type has its place in organisations, depending on the situation.

Definition

There have been many different definitions of motivation. The concept widely accepted by managers, however, is that motivation is something that the manager owes to his subordinates to get them to work harder. It is considered to be a force within each individual which determines the course of his/her behaviour and the amount of energy directed towards that behaviour. In short, motivation is the reason an individual does certain things to avoid certain things.

To appreciate the role that working conditions and motivation play in the efficiency and productivity of public enterprises, one has to understand the factors that enhance motivation and how these can be influenced or diverted to increased productivity.

The question of "How do I motivate my workers" or, to put if more bluntly, "How do I get my subordinates to produce more?", besets every superior and manager. It has led to a myriad of theories. Managers have tended to avoid one of three major approaches, depending on the manager's basic assumptions about and opinions of workers.

Taylor and his associates tend to see man as a passive individual whose feelings are unpredictable and who needs to be controlled. They saw motivation as being tied to a system of rewards and penalties (mostly economic in nature), based on work performance. This concept is based on the Theory of Scientific Management.

Mayo and his followers see man as a social animal to whom the peer group is most important. Rewards tend to be based on membership in the organisation and tend to evoke responses (more work) based on gratitude and loyalty. The assumption made is that if workers are happy and satisfied, they will work harder. This concept is based on the Theory of Paternalistic Management.

Malsow, Herzberg and many others tend to focus more on the individual as a learning animal seeking self-fulfilment proponents of the Theory of Participative Management feel that people get satisfaction from doing an interesting job and doing it well.

Are these theories of motivation and management relevant in the African culture? One cannot discuss the performance of public enterprises without discussing the social and cultural environment. Enterprises do not exist in a vacuum and are markedly influenced by the culture and environment in which they operate. This point is very well illustrated by C. C. Onyemelucke in his book, *Men and Management in Contemporary Africa* in which he outlines his findings as a result of a survey of 18 companies in the city of Lagos. He ascribes the following characteristics to what he refers to as 'industrial culture' (African):

	Industrial		*Traditional*
(a)	Nuclear family	(a)	Extended family
(b)	Earned Status	(b)	Ascribed status
(c)	Religious work ethic	(c)	Other worldly goals
(d)	Written rules and laws	(d)	Customs and social values

(e) Loyalty to nation (e) Loyalty to small group

The conclusions of this survey, which certainly do not reflect the situation in most African countries were:

First, that workers felt that management was responsible for the total welfare of the worker and his extended family. Secondly, respondents felt that wage levels should be based on the need of the employee and should not be used as a reward for productivity. 'Merit means a history of service with no adverse reports', i.e. no dishonesty or disobedience. Thirdly, the important motivation for the 'African Worker' (if such a person exists) centred on the social or belonging aspects of a job. There is a feeling that the job serves, in effect, as an extension of, or in some cases, replacement for, the extended family that the individual left behind.

The conclusions of this study are not entirely valid in the context of The Gambia, for understandable reasons, but some are quite relevant.

Onyeulukwe's study was conducted in one city in one African country, which is by no means representative in Nigeria or the continent. In commenting on The Gambian situation, I examined six parastatal organisations in different sectors:

(i) The Gambia Produce Marketing Board;
(ii) The Gambia Utilities Corporation;
(iii) The Agricultural Development Bank;
(iv) The Fish Marketing Corporation;
(v) The Gambia Technical Training Institute;
(vi) The Livestock Marketing Board.

Most of these enterprises have been established for several years and they seek to accomplish objectives of great national concern. Several of them play a key role in the nation's economic life and consequently their overall performance, productivity or failures are major determinants of national progress or stagnation.

(i) The Gambia Produce and Marketing Board for example handles the marketing of major agricultural produce including rice, the nation's staple food, groundnut and all its by-products, and cotton, which literally account for over 95 per cent of export earnings. The Board also sells fertiliser and a host of farming inputs and equipment. It organises and supervises the internal distribution of many of these commodities, marketing local products abroad and is also involved in the production of groundnut oil, beverages, soap and candles and the processing of cotton.

The Gambia Produce Marketing Board is the company's biggest parastatal in terms of investment and volume of employment. The Board's operations necessitate the creation of many units dealing with:

- marketing – local and overseas
- transportation
- production and processing
- engineering
- accounts, finance and auditing
- personnel administration
- cargo and handling

The Board has established service conditions which determine the conditions of appointment and the entitlements of all the staff in the permanent and pensionable cadre. For employees engaged periodically, particularly during peak seasons, the service conditions vary considerably.

(b) The Gambia Utilities Corporation represents another major parastatal of great social and political interest. Its prime purpose is to provide electricity and water supply to its consumers and also to offer a sewerage service, although this is yet to be fully established. The Corporation is consequently deeply involved in the generation of electricity, in the installation, operation and maintenance of generating electricity, in the installation, operation and maintenance of generating generators, and equipment, in the installation of standpipes and metres for public and private use and in the collection of revenue. The Corporation has a big labour force and runs several departments including: Billing, Finance and Accounting, Transportation, Water, Electricity, Sewerage Repairs, Maintenance, Personnel and General Administration.

A major concern of the Corporation is the extension of electricity and water supplies to the rural areas, where the service will inevitably have to be heavily subsidised because of relatively low consumer demand. The issue of "subsidy" and that of "viability" are major preoccupations in the Corporation. The Corporation constantly faces serious liquidity problems and it is never permitted, for political and social reasons, to raise its tariff so as to make the service economically and commercially viable. Segments of the labour force are usually in a vulnerable position and are affected by prolonged break-downs of generators or periods of acute liquidity problems.

Through observation over a number of years, conversation with managers at various levels, the collection of anecdotal data, and intensive study of the six

enterprises enumerated above, it is possible to piece together a reasonable word picture of the "typical" worker in a Gambian Public Enterprise, as seen through the eyes of those in managerial positions. In many ways it resembles that painted by C.C. Onyemulukwe with regard to workers in Lagos. There are, however, significant differences as well.

A Profile of the Gambian Worker

This typical worker expects that his employer should help him solve some purely personal problems. A few examples will demonstrate this point. First, an employee finds himself through his own actions, without accommodation. The Social Security and Housing Finance Corporation (SSHFC) are about to commence the allocation of houses to eligible and approved candidates. The employee expects his boss to intervene to win support for his case.

Secondly, an organisation gives regular pay increases based on rises in the cost of living, as well as merit increases based on performance. The Civil Service announces a pay increase for its employees. The employees of the other organisations insist that they be given an equal increase "because the Civil Service got one".

Thirdly, our typical employee seems to see no relation between productivity and pay or promotion, even while ostensibly supporting a "merit" system of promotion. For example, an employee absents himself from work on many occasions and at other times arrives late for work. He is astounded that he is not given one. An employed whose duties include running training sessions is sent on a course in training techniques as he is found to lack skills in this area. On return from the course, he demands a promotion even though he is only now performing the original duties.

Fourthly, our typical employee seems to have no sense of obligation to produce or to carry our assigned duties. For example, a receptionist's only duty is to answer in-coming calls. The phone rings twenty times before it is answered.

Fifthly, identification with the objectives of the organisation is very often lacking as far as out typical worker is concerned. A postal clerk with the only key to a cabinet holding registered mail takes the morning off. No alternative arrangements are made and customers cannot get their mail.

Sixthly, managers at various levels of the organisation fail to identify themselves as part of the management team. There is little sense of a collective responsibility.

The result is, while some managers will subscribe to certain decisions, they may also undermine their implementation.

Finally, our typical worker exhibits little sense of responsibility for the result of his actions. A driver is detailed to drive to the airport for example to pick up a visiting expert. On the way he takes a detour in order to visit a friend. In the process, he misses the plane and the visitor. He protests loudly when he is told that he will have to pay the additional petrol costs. Many managers have verbally expressed that our typical worker tends to work hard at the beginning of employment but that his effort quickly trails off once he feels secure in his job.

The profile of our typical worker helps to highlight some of his expectations and concerns at work - factors which have to be known if managers are to motivate them. What are the concerns or interests of our typical worker? What are his conditions of work like?

The Concerns of the Typical Worker

Our typical workers seems primarily concerned about gaining what he perceives as "the good life" - as measured in material gain. In a developing society where jobs are relatively scarce, he constantly seeks reassurance as to his security of tenure. He cultivates relationships with political figures or top management to strengthen his position in the organisation.

Secondly, he seeks an ever-increasing salary. Training, "acting" positions and promotions are measured in terms of increased earning potential. Activities outside work tend to concentrate on income-producing activities as small businesses. Several at supervisory or management level may have commercial taxis or shops and the demands of these businesses often encroach on official duties. If the taxis are off the road, or if rice or other commodities are to be obtained for the shops, official work is sacrificed for personal commercial pursuits. There is widespread belief, that salaries in the public sector, including parastatal, are extremely low, and have to be supplemented by other personal pursuits or commercial ventures if staff and workers are to survive. The word "hustle" is a household term for the process of augmenting one's income. "We have to hustle constantly in these days of inflation and poor salaries if we are to meet our basic needs", is a popular saying in many public sector organisations.

In a similar manner, there is constant quest for increased fringe benefits. Our typical worker seems to view the organisation as a store house of material benefits which are being unfairly denied the worker. There is a pressing need to instil in workers a sense of commitment to the organisation's goals, and to encourage

(iii) outfit allowance;
(iv) education allowance; and
(v) entertainment allowance for the hosting of guests sponsored by the Board.

Chapter VII of the Rules focuses on leave entitlements, which are also generous:

(a) vacation leave on full salary is granted at stipulated rates;

(b) an employee shall be granted up to 14 days leave with full salary on special grounds, if the managing director is satisfied that his absence will not adversely affect the employee's work and that urgent private affairs justify the grant of leave;

(c) sick leave may be granted on full salary up to six months if this is recommended by a Medical Board;

(d) In the event that an employee has to undergo medical treatment abroad, the Board will meet all medical expenses including hospitalisation costs. Only a marginal contribution is required from the patient.

Many other fringe benefits covering leave advances, training, staff development policies, scholarships, provident funds and schemes designed to foster group solidarity can be cited in this organisation's Service Rules.

In addition to these benefits, the organisation does its utmost to improve the physical conditions of the work environment. Uniforms are provided for mechanics and other tradesmen and free transportation is provided for night workers and other employees who work abnormal hours.

Effect of Social and Cultural Factors on the Work Situation

Working conditions are in many countries influenced in varying degrees by social and cultural factors. In The Gambian Public Enterprises, the influence is very pronounced. The office or the factory is not always seen as a place where serious official tasks have to be performed within a specific period of time in the interest of the country.

Women going to the market, find excuses to visit friends and relatives in offices and workshops, for purely personal purposes. Very often, they are seeking financial assistance or just pass by to chat. The lesson is still to be learnt that offices, workshops and factories are not primarily designed for visitors, vendors

or beggars. The situation was much more serious before the abortive coup d'etat of July 1981. Nowadays, security measures are more strictly enforced and this has reduced this unfortunate phenomenon.

A lot of a manager's or supervisor's time is consumed by discussions with casual visitors who are either seeking jobs or other favours. Many find it difficult to be impolite or discourteous and as a result efficiency and productivity are seriously impaired. Social functions like weddings, funerals, christening ceremonies, religious activities are occasions when employees and, at times, supervisors and managers get engrossed in purely personal matters to the detriment of their work at times. The typical worker feels he may legitimately pursue his private matters a day before a wedding or an important religious ceremony. He can disappear from work and the boss will understand. These shortcomings are deeply rooted and will only be dispelled by increased mass education and stricter national discipline.

Conclusion and Recommendations

Five major conclusions emerge from the study of working conditions and motivational factors in the six Parastatal Organisations I had the opportunity to probe. First, salary, security, and a wide range of fringe benefits are of great importance to the typical worker in these organisations. Second, there is a desire for power but relatively little interest in achievement. A third point of departure is an acceptance of the basic needs theory (in particular Malsow's Hierarchy of Needs) and of the basic contention of expectancy and incentive theories that an individual will produce if he sees some correction between his efforts and the desired reward or goal. Fourth, sanctions, even where they are highly justified, are often avoided for fear of ostracisation or social repercussions – an unfortunate situation which is usually exploited by unscrupulous workers. Fifth, social and cultural demands have many negative effects in the work environment and this impairs efficiency and productivity. In his training film, entitled "KITA", Frederic Herzberg makes the distinction between "movement" which he describes as simply getting someone to do whatever he wants to do. He suggests that "movement" can be accomplished through positive and/or negative KITA, i.e. through a system of rewards such as pay increases and promotions and a system of sanctions or punishments, e.g. demotion and dismissal.

In the context of The Gambian enterprises, this approach has a lot of merit. The evidence shows that it is not always possible to motivate workers to accomplish certain tasks. For such people, a manager must use reward where this is due and resort to punishment when appropriate. This is one way we can promote productivity and efficiency in these organisations which we desperately need.

A second approach which I will equally advocate is the philosophy of self-motivation. The "movement" approach can be largely induced by making the attainment of individual goals dependent upon satisfactory production. This would involve making pay increases, promotion, increasing fringe benefits dependent on productivity levels. It could take various forms, including bonus systems, piece work, task work and the measured day approach to payment. In my view this approach is effective up to a point, but cannot serve as a long-term solution. If workers are to develop a commitment to organisational goals and objectives, to identify their interests with the interests of the organisations, and to work conscientiously without the expectation of reward or fear of reappraisal, they have to develop a philosophy of self-motivation. Managers have a crucial role to play in this respect. They have to closely identify by study and careful observation, what motivates their individual workers and then attempt to address these facts and concerns. Individuals too, have to develop a work ethic in which they believe, if motivation in the organisation is to be enhanced. In other words, there is need for a two-pronged approach which stimulates productivity through rewards and punishments and at the same time enhances self-motivation for reasons of philosophical or ethical beliefs.

SECTION III

PRIVATISATION CASE STUDIES

14

MANAGEMENT OF THE PRIVATISATION PROCESS IN SUB-SAHARAN AFRICA

Paul Cook and Colin Kirkpatrick

Introduction: Economic Policy Reform in Sub-Saharan Africa

In response to the economic crisis of the early 1980s, many developing countries embarked on structural adjustment programmes, involving major reform of economic policy. In contrast to the macro-stabilisation programmes, which seek to deal with short-term balance of payments and inflation problems resulting from excess aggregate demand, structural adjustment programmes aim to stimulate aggregate supply by increasing static and dynamic efficiency in resource use. Much of this structural adjustment effort has been undertaken in response to conditionality attached to donor lending. Sub-Saharan Africa (SSA) featured prominently in the structural adjustment lending activities of the international financial institutions. Some 34 SSA countries had adjustment loans with the World Bank during the period 1980-88, which together accounted for a quarter of all World Bank adjustment lending commitments and almost half of all loan agreements (World Bank, 1989). Similarly, since the introduction in 1986 of the IMF's Structural Adjustment Facility (SAF), some 30 SSA countries have adopted adjustment programmes under this form of loan agreement.

There is now a sizeable body of empirical evidence, derived from varying methodologies, on the impact of policy-based lending on economic performance in SSA. This evidence is virtually unanimous in the conclusion that, with the exception of export growth, there is no compelling evidence of general improvement in loan-adjustment countries, although there has been considerable variation in experience between countries (Elbadawi et al, 1992; Mosley and Weeks, 1993; Kirkpatrick and Weiss, 1994). Indeed, recent World Bank research finds that for SSA, performance of non-loan countries has been superior, on average to that of loan countries in terms of both GDP growth and export performance (World Bank, 1992).

The uneven and generally modest achievements of structural adjustment policy reforms in SSA have stimulated interest in identifying the reasons for programme 'failure'.

Part of the explanation for the poor record of structural adjustment policy reform in SSA has been sought in terms of policy design failures. The theoretical basis of supply-side interventions rests on micro-economic arguments regarding market-based forms of allocation, many of which are poorly understood and lacking in strong empirical validation. Consequently, there has been considerable debate as to the appropriateness and effectiveness of particular policy instruments – exchange rate policy, trade liberalisation, price deregulation – in influencing economic recovery (Mosley and Weeks, 1993; Kirkpatrick and Weiss, 1994). Questions of the appropriate timing and sequencing of the economic policy changes have also been widely discussed (Greenaway and Morrissey, 1993; Collier, 1993). The implication of this approach is that the solution to the problem of structural adjustment 'failure' is a technical one, requiring better design and co-ordination of the economic policy reform process.

A second approach to explaining the disappointing results of the economic reform process in SSA has been to re-appraise the role of government and the state sector. Over the past decade of structural adjustment there has been a perceptive shift in prevailing views about the role of government in promoting economic growth and development. Where it was once thought that government intervention would inevitably impede economic progress, and the policy advice of the Bretton Woods institutions therefore emphasised the need for the state to withdraw from participating directly in economic activity, there is now a greater recognition of the positive role of government intervention in supporting and facilitating market-based development. The early 1980s' message of the 'dead hand' of the state has been replaced by the 'helping hand' of government. This rediscovery of the legitimate role of government in economic management has been clearly expressed by the former Chief Economist of the World Bank:

> "The blend of state and markets in the economy is a decisive factor. A review of the record identifies some important characteristics of successful government intervention. Most of these follow from the general principle of supporting rather than supplanting markets and the related idea that, as Keynes points out, "the important thing for government is not to do the things which individuals are doing already and to do them a little better or a little worse; but to do those things which at present are not done at all" ..... Market development itself requires government action ..... The central issue, then, is one of the state and the market, but it is not a question of intervention versus laissez faire ..... it is rather a question of the proper division of responsibilities between the two and of efficiency in their respective functions."
>
> (Summers and Thomas, 1993: 224)

Economic theory provides grounds for legitimate government intervention. Apart from the conduct of macro-economic policy, governments must provide the legal framework governing property rights and principles of contract, which is needed for market exchanges. In addition, there is a case for government action in production, regulation, subsidisation, support or mediation (broadly labelled 'intervention') in conditions of market failure (ODA, 1992).

Market failure can effect both factor and product markets. In the case of factor markets, failures occur frequently in the following areas: physical infrastructure, labour markets, human capital and financial markets, technology importation. A significant part of development policy is concerned with remedying failures in each of these markets. In the case of product markets, failures may be of three types: anti-competitive behaviour by large firms in oligopolistic markets; lack of information and high transactions costs in marketing; and effects of international competition on new entrants (World Bank, 1992).

The present consensual view recognises, therefore, the potential importance of governments in the process of development, but stresses that their role should encompass areas where it is clear that the state has a comparative advantage or where appropriate private initiatives will not be forthcoming, due to the nature of the activities involved.

Market failures are more prevalent and the need for government intervention is therefore likely to be greater, in developing than in developed countries (Stiglitz, 1989). At the same time, the capacity to undertake effective intervention is often inversely correlated with the economy's general stage of development. The capacity for effective development policy management - which embodies economic intervention at macro- and micro-levels - becomes, therefore, a critical factor in determining the outcome of initiatives directed at reforming the existing policy framework. By extension, weaknesses in institutional capacity to manage the development policy reform process have contributed to the 'failure' of the economic reform process in adjusting economies.

It is now recognised that the goal of private sector development (PSD) cannot be achieved simply by the withdrawal of the state from the economic sector. As the World Bank acknowledges, "the Bank Group finds itself continually confronting unforeseen problems and complexities in PSD" (World Bank, 1993a: 61). Upgrading public administration capacity is increasingly being recognised as a necessary condition for successful PSD and as a result:

> "The WBG is helping governments re-assess public spending priorities and prune unmanageable or peripheral activities, thereby allowing for a more efficient use of both public and private skills and resources. ..... An important related goal is to

strengthen the role of the state by working to build capacity in public institutions that play a key role in PSD."

(World Bank, 1933a: 65, emphasis in original)

Public Enterprise Sector and Privatisation

In the 1960s, governments in sub-Saharan Africa, more than in any other region of the developing world, chose the public enterprise as a major vehicle for promoting economic development. As a result, the public sector came to account for a significant share of capital formation, manufacturing output and formal sector employment in most African economies. However, the economic results achieved by the expansion of the public sector are acknowledged to have been disappointing with ineffective performance leading to sizeable fiscal deficits and inefficient production.

Reform of the public enterprise sector has featured prominently in the conditionality attached to the structural adjustment lending to sub-Saharan Africa since the early 1980s. During the first half of the decade, some 60 per cent of all loan agreements contained public enterprise reform requirements: during 1988-91 the share rose to 67 per cent (World Bank, 1992a, table A2.2). But despite the insistence of the international financial institutions on the implementation of the state-owned enterprise reforms, the evidence suggests that this has proved hard to attain. Africa has accounted for a mere 17 per cent of developing countries privatisation of public enterprises, between 1980-91, with one country (Guinea) accounting for almost a fifth of SSA sales (World Bank, 1993). Sub-Saharan Africa share of foreign direct investment from privatisation sales has amounted to less than one per cent (Sader, 1993).

The initial enthusiasm for public enterprise reform by the World Bank, as reflected in its conditionality in the early 1980s, has given way to a stronger emphasis on privatisation in the 1990s, even for sub-Saharan Africa (Cook and Kirkpatrick, 1995). Indeed, the number of public enterprises judged to have been on the road to major and enduring improvements, as reported in the World Development Report 1983, among them the Senegalese bus company, have since not improved in performance or have deteriorated (Weiss, 1995). The survey by Swanson and Wolde-Semait (1989) showed that few enterprises in Africa improved their performance over the decade of the 1980s.

The pace of privatisation has accelerated, however, and in recent years, a growing number of African countries have undertaken the divestiture of state-owned enterprises (Fontaine, 1993).

Trends in Privatisation

In terms of transactions value, African privatisation (excluding South Africa) has accounted for less than one per cent of worldwide sales. In sub-Saharan Africa, as in other developing country regions, privatisation is highly concentrated among a few countries. Six countries - Benin, Ghana, Guinea, Mozambique, Nigeria and Senegal, account for two thirds of the divestitures (Table 1). However, the number of divestitures overstates the extent of privatisation since large enterprises which represent the bulk of public assets have generally not been privatised.

Table 1

Divestiture of Public Enterprises in Sub-Saharan Africa, 1986-92

Percentage of enterprises divested	Number of enterprises before divestiture			
	0-50	51-100	101-200	More than 200
0-10	The Gambia	Burkina Faso	Cameroon	Kenya
	Mauritania	Congo	Côte d'Ivoire[a]	Tanzania
	Rwanda	Uganda	Malawi[b]	
	Sierra Leone	Zambia		
	Zimbabwe			
11-25	Chad	Burundi	Madagascar	Ghana
		Central African Republic		Mozambique
26-40	Niger		Guinea	
			Nigeria	
41-60	Guinea-Bissau	Benin		
		Mali		
		Senegal		
		Togo		

Note: Divestitures include partial sales, but not management contracts or leases.

[a] Data for 1989-92. Some thirty transactions in the 1980s are excluded.

Total number of enterprises includes 121 statutory bodies and 18 commercial parastatals.

Source: World Bank, 1994

The main difference in the sectoral composition of privatisation between developing country regions is the almost complete absence of infrastructure in privatisation in sub-Saharan Africa. In this region, industry and services between 1988-92 accounted for most asset sales. In contrast, in South America, where the sectoral distribution of privatisation is similar to the global picture, infrastructure accounts for around 35 per cent and financial services for another 30 per cent. In East Asia and the Pacific area the percentage of infrastructure privatisation is even more dominant, rising to 80 per cent. As a general rule, privatisation of manufacturing appears relatively more important within the lower income economies of sub-Saharan Africa and South Asia and accounts for between 40 to 50 per cent of revenue.

Foreign investment has accounted for an increasing share of privatisation sales in less developed economies (LDCs). Sader (1993) estimates that while foreign investors participated in only seven operations in 1988, they were involved in 191 separate transactions in 1992, and in a total of 375 over the period 1988-92. A total of $18 billion in foreign exchange was generated as a result, contributing on average about 30 per cent of total revenue (see Table 2).

Foreign direct investment (FDI) has been the most common means of foreign participation in privatisation transactions in the developing countries. Of the total foreign exchange contribution to privatisation of $18.5 billion, some £14.5 billion (78 per cent) was in the form of FDI. Direct foreign investment in privatisation accounted for about 10 per cent of all FDI flows to LDCs over the 1988-92 period (see Table 3). The Table also clearly shows the differences between regions. While African privatisation has been relatively insignificant in world terms, it does rely to a greater extent than other developing countries on foreign investors. In contrast, domestic investors have been more prominent in the privatisation programme of economies in East Asia.

Table 2

Foreign Exchange as Share of Total Privatisation Revenue, 1988-1992 (percentage)

	1988	1989	1990	1991	1992	Average
Europe and Central Asia	80.6	55.6	36.1	55.8	63.0	55.7
Latin America and Caribbean	8.2	43.9	37.8	38.4	16.7	28.8
East Asia and Pacific	0.0	0.0	0.0	19.5	13.0	8.4
South Asia	0.0	3.8	36.2	3.5	8.4	8.8
Sub-Saharan Africa	0.0	34.7	47.2	1.1	35.9	36.7
Total	**9.3**	**20.9**	**33.4**	**40.2**	**24.6**	**30.7**

Source: Sader (1993)

Table 3

Foreign Direct Investment for Privatisation 1988-92
(in US$ million and percentage)

	From privatisation (US$ m.)	As share of total FDI (%)
Europe and Central Asia	5,869.0	31.90
Latin America and Caribbean	8,122.0	16.40
East Asia and Pacific	376.0	0.68
South Asia	52.0	3.40
Sub-Saharan Africa	71.4	0.99
Total	**14,480.4**	**10.40**

Source: Sader (1993)

Performance with Privatisation

The assessment and evaluation of the effects of privatisation is difficult to accomplish, and immediately encounters several major methodological constraints. The first difficulty relates to the measure of performance or 'success'. Ideally, performance should be assessed in terms of the objectives set for the privatisation. For some, the objective of privatisation is broadly defined in terms of expanding the share of the private sector and fostering market development.

An alternative approach is to assess private performance in terms of macro-level indicators. The contribution to government revenue and the reduction in the budget deficit relate directly to one of the main objectives of privatisation. The impact of privatisation on investment or on foreign direct investment inflows, are alternative indicators of macro-level impact.

More commonly used yardsticks of privatisation performance are measured at the enterprise level in terms of economic efficiency or financial profitability. In both cases, a range of indicators can be calculated, such as profit margins, profit-asset ratios, and labour productivity in assessing performance of privatised enterprises.

A fourth approach to assessing the results of privatisation is to assess performance outcome in terms of social impact. Here, the most commonly used measures are employment, wage levels, and associated employment-related benefits. A closely related set of indicators assesses the impact on labour that is retrenched as a result of privatisation, and would cover unemployment and redundancy payment, and related safety net provisions.

Irrespective of the indicator of performance that is selected, there are further difficulties in developing an appropriate methodology for impact assessment. The problem is the familiar one of establishing counter-factual, i.e. what would have happened in the absence of privatisation? If the counter-factual can be identified, it becomes possible to separate out the extent to which observed changes in the performance indicator are due to privatisation itself, and the extent to which they are due to exogenous changes in the industry of economy as a whole. Two approaches have been widely used. The first is to compare performance before and after privatisation. The second is to compare performance of privatised enterprises to that of similar enterprises that have not been privatised and to take the observed difference as evidence of the effect of privatisation. Both approaches have their drawbacks and provide only an approximation to the ideal counter-factual-based estimate.

Assessing the performance with privatisation is also made more difficult by the tendency among policy-makers, particularly in the industrialised countries, not to be concerned with detailed monitoring and evaluation of enterprises that in effect become part of the private sector. This attitude might be accepted, if the private sector operated in a well-functioning competitive environment with appropriate institutions to check abuses of market power. However, these conditions often do not exist. The emerging market structures in many developing countries have yet to develop an environment that can adequately safeguard against potential abuses of market power. In many developing countries also there is an absence of role models in the private sector for divested enterprises to pattern themselves on and to compete with (Heald, 1990).

In view of the methodological and empirical difficulties in assembling evidence on post-privatisation performance, it is hardly surprising that the available evidence is limited, making comprehensive and systematic assessment difficult.

The World Bank (1992) attempts to provide a general assessment of international privatisation. Here, it is concluded that privatisation has had a positive impact on economic performance, measured in terms of increased investment, improvements in productivity, and output growth and diversification. It is also concluded that economic welfare has improved as a result of privatisation: 'the benefits from properly executed privatisation have proved to be considerable, as revealed in cases in Latin America (Mexico, Chile, Jamaica), Africa (Niger, Swaziland), Asia

(Malaysia, Korea), and developed countries (U.K., France, Japan, New Zealand)', (p. 9).

The World Bank's assessment of privatisation is that "such limited privatisation has had little impact on efficiency and economic growth", (World Bank, 1993: 105). Several reasons are cited. In some cases, government has continued to hold a major share - and to intervene - in partly privatised firms. In many circumstances the new owners received favourable treatment - tax benefits, duty-free imports, tariff protection and priority access to credit and other scarce inputs, that reduced the potential gains from privatisation. In some countries, corruption and cronyism were reflected in a lack of transparency, and underlined the performance benefits.

To counter this, examples exist of economic improvements that have been accomplished without changing ownership. For example, in Kenya, Grosh (1991) found that manufacturing in general public enterprises with non-politically appointed managers was both more profitable and more economically efficient than private firms.

The evidence is unclear as to whether or not privatisation leads to more investment in sub-Saharan Africa. Fontaine and Geronimo (1995) have indicated that in some cases (Malawi and Gambia) private investment responded to public sector reforms. Similarly, private investment increased following privatisation in Côte d'Ivoire. It is also highly probably that private investment responds more to the restoration of favourable macro-economic conditions than to privatisation alone.

It is argued that privatisation has been used successfully to develop capital markets in a range of countries including Nigeria (Kikeri, Nellis and Shirley, 1994). The number of enterprises and the proceeds as a percentage of stock market capitalisation are shown in table 4.

Table 4

Privatisation and Capital Market Development

Country	Number of enterprises sold through stock exchange	Proceeds of sale through stock exchange (millions of US$)	Proceeds as a percentage of stock market capitalisation	Number of new share-holders
Canada	2	812	0.4	n.a.
Chile (since 1985)	14	894	9.3	63,316
France	14	5,148	3.0	5,000,000
Jamaica	3	121	12.6	30,000
Japan	1	75,600	1.7	1,670,000
Nigeria	16	27	2.0	400,000
Trinidad and Tobago	2	7	2.5	n.a.
Tunisia	2	9	n.a.	n.a.
United Kingdom	14	51,721	n.a.	7,400,000

Source: Kikeri, Nellis and Shirley (1994)

Evidence on the impact of privatisation on labour is also limited. However, a number of case studies show the variety of experience with privatisation. In Guinea, as part of an economic recovery programme initiated in 1985, the Government set a target reduction in public sector employment of 25,000 persons.

A number of actions were initiated to achieve this reduction. A hire freeze for civil service positions was imposed, guaranteed employment for graduates was ended, retirement of civil servants over 55 and with more than 30 years' service was mandated. In addition, a large number of public enterprises and banks were closed and their employees removed from the public payroll. Some employees, particularly those in the mining companies, were re-employed on a contractual basis. Optimal early retirement and voluntary departure packages with substantial benefit packages were offered as inducements to leave public employment (Mills and Sahn, 1994). The voluntarily departing employees were also entitled to receive private enterprise development loans and training.

As a result of these measures, some 32,000 workers were taken off the public sector payroll between 1985 and 1989, although this overstates the net reduction in employment due to unreliable payroll information and unreported new hiring. At the same time as the reduction in public sector employment occurred, wages and allowances in the public sector were increased between 1985 and 1989, resulting in an average increase in real remuneration of 23 per cent.

In Ghana, the reform of the public enterprise sector has been an important part of the Economic Recovery Programme, which began in 1983. In 1987, when the enterprise reform programme was formalised by the establishment of the State Enterprises Commission, the government held a financial interest in more than 300 enterprises.

Divestiture of public enterprises has proceeded slowly, but by the end of 1993, some 86 enterprises had been privatised or liquidated (Adda, 1994). With the privatisation of these companies, government assumed responsibility for liabilities with respect to retrenched workers as well as obligations due to creditors. In 1991, these liabilities assumed by government, amounted to half of the gross proceeds from divestiture.

The Government has taken a number of steps to deal with its substantial liabilities for end-of-service benefits to retrenched workers. A national pension scheme was introduced to replace the retirement gratuity provisions of collective bargaining. Labour legislation was re-drafted to standardise and rationalise entitlements to severance or redundancy payments. There is also evidence of increased wages for workers that have been retained in privatised enterprises and, in some cases, employment has also increased after privatisation (UNCTAD, 1993).

In addition, the PAMSCAD programmes have, in practice, devoted resources to provide compensation packages for retrenched public sector employees. This has sometimes been to the detriment of other needy groups including small farmers and low-income urban households who had been targeted by the scheme (Burgess et al, 1993).

Although trade unionism is relatively weak in most African countries, there are examples of their ability to influence the privatisation programmes. In Mauritius, the privatisation of public enterprises does not affect the right of collective negotiation. Trade unions have the right to negotiate their transferred workers' terms and conditions of service with their new employers, including wages, allowances and social security benefits. As a result, privatisation has had little adverse impact on employment (Njoodha, 1993).

Managing Privatisation

The impediment to progress in relation to privatisation can be categorised into two broad groupings, paralleling the more general discussion on the causes of economic policy reform and structural adjustment 'failure'. We begin by considering a number of 'technical' issues which are specific to the privatisation management process, and then consider broader issues which extend beyond privatisation policy.

There can be few, if any, categoric answers about the appropriate design of a privatisation strategy. Much will depend on the particular configuration of economic circumstances and policy objectives of the country in question. What can be done, however, is to offer a number of guidelines, based on the experience of developing countries that have proceeded with privatisation programmes.

Selection of Appropriate Method of Privatisation

There is a range of privatisation methods available to the policy-maker. The potential benefits and costs of each option need to be identified, in terms of the particular enterprise being considered for privatisation. The choice of instrument for privatisation should be determined by the estimated net benefits (measured in terms of the objectives of the privatisation programme) of the alternative policy options. Careful consideration is required to assess the prior restructuring possibilities that exist for large and uneconomic enterprises. Schemes for alleviating high indebtedness need to be balanced with the failure requirements for growth which inevitably entail more equity and borrowing. A clear policy needs to be indicated over the appropriate balance between domestic and foreign equity and borrowing.

Transparency in Policy

If the privatisation programme is to succeed in winning general public support, the measures adopted need to be perceived as fair and open. This means competitive bidding procedures, specified criteria for the evaluation and selection of bids,

disclosure of purchase price and conditions and buyers. Lack of transparency can lead to perceptions of unfair dealings and can damage the credibility and acceptability of the privatised programme.

Awareness of Employment and Social Impact

Privatisation can lead to a reduction in the workforce as the private sector owners seek to improve profitability through employment cutbacks. In order to mitigate the potentially damaging social costs associated with unemployment and redundancy, government will need to develop compensatory measures such as severance and redundancy payments and the promotion of alternative employment opportunities.

Establishing an Effective Privatisation Authority

The speed with which the privatisation programme can be implemented will be affected by the capabilities of the body which is given responsibility for managing the privatisation programme. The capacity may need to be strengthened by buying in specific expertise, but institutional strengthening is often needed at the early stage in the privatisation process. The responsibilities of the Privatisation Authority need to be clearly delineated, with the privatisation body having sufficient autonomy in policy-making to allow it to resist pressure from interest groups and affected parties.

Speed and Sequencing of Privatisation

An important part of the privatisation management process relates to the phasing of the privatisations of enterprises. It is argued by Demirguc-Kunt and Levine (1994) that privatisation or public enterprise corporatisation is more likely to increase economic efficiency when the financial system has initially been privatised and is well-functioning. Over-hasty privatisation should therefore be avoided, even where it is possible to divest quickly. The case for corporatisation and restructuring prior to privatisation needs to be considered with a view to maximising the government's net gains. Also, there are unlikely to be significant efficiency gains if a monopoly enterprise is privatised without establishing an effective regulatory framework. The implementation of privatisation will involve considerable preparatory work, which is often time-consuming and will involve the sequencing of the programme over a number of years. The Privatisation Agency is likely to be pressured by government and donors to speed up the rate of

privatisation. Nevertheless, a gradualist approach may prove to be more effective in the long run than ill-judged haste.

Some Broader Lessons

The 'success' of the privatisation programme will not only depend on the technical competence and skills of the institution or authority with responsibility for the implementation and management of the privatisation process, but will also be determined by broader, economy-level considerations which extend beyond the parameters of the privatisation programme. The following two issues are of particular importance in determining the success, or otherwise, of the privatisation programme.

The Continuing Importance of Public Enterprise Reform

One of the main objectives of privatisation is to contribute to an improvement in public enterprise sector performance. But in many developing countries, for some of the reasons discussed above, expectations as to how much privatisation can 'deliver' in terms of overall sector performance improvement have been exaggerated. The current emphasis on privatisation brings with it the danger that attention will be directed from policy and institutional reform within the public enterprise sector (Heald, 1991). It is worth noting that the importance of public enterprise sector reform *vis a vis* privatisation was recognised by the World Bank in the first half of the 1980s, but more recently there has been a growing emphasis on the privatisation option. But for many SSA economies, the path to significant improvement in public enterprise performance improvement will be internal reform of enterprise management and policy, rather than through the change of ownership from public to private.

Public Sector Restructuring and Institutional Capacity Building

A second objective of privatisation has been to contribute to private sector development (PSD). But it is now clear that privatisation is not a sufficient strategy for supporting PSD (nor, indeed, is it a necessary condition).

> "Privatisation must be complemented by emphasis on reforming and upgrading public administrative capacities which have the potential to profoundly affect the growth and efficiency of the private sector, in areas such as tax and customers administration, regulation, trade and investment promotion, enterprise support

services, cost administration and infrastructure planning and provision".

(World Bank, 1993a: 69)

The reform of the core functions of public administration, and the strengthening of the role of the state by building capacity in public institutions will be key factors in determining the outcome of the privatisation process, in terms of its contribution to the objective of private sector development.

Regulation and Competition Policy

An area where institutional capacity strengthening is of particular importance for the success of privatisation, is in the establishment of a post-privatisation regulatory and competition policy framework. Regulation of monopoly power and the creation of an appropriate enabling environment in which competition can develop are essential adjuncts to privatisation (Vickers and Yarrow, 1988; Frischtak, 1993). This is particularly important in smaller developing countries where competition is weak and market failure is more prevalent. Despite this, post-privatisation regulation policy has received little attention and development of efficient regulation and competition policy is still at an early stage.

There is a need to establish specific institutions with responsibility for competition policy and regulation of monopolistic behaviour. Competition policy institutions will need to develop guidelines on what constitutes anti-competitive behaviour and establish a means of monitoring and evaluating such practices. The regulatory authority will have a choice of regulatory methods - rather of return regulation, output price regulation, input price regulation - and will need to monitor the observance of the regulatory method adopted.

Successful privatisation requires, therefore, a regulatory framework that separates out potentially competitive activities, sets out the tariff regime, develops cost minimisation targets and creates an independent agency to supervise the established procedures.

Concluding Comments

By way of conclusion, it will be useful to draw together several strands in the argument.

Successful privatisation will depend upon, *inter alia*, an institutional capacity to manage the privatisation process. However, this capacity is likely to be weakest in low income economies, and strengthening of public sector institutional capabilities

can often be required at the first stage of privatisation policy implementation. Institutional strengthening and the developing of an institutional framework supportive of private sector development, are long and difficult processes, susceptible to failure and dependent on government commitment. As the delays experienced in privatisation programmes have shown, tackling institutional impediments raises a distinct set of issues that goes well beyond the technical problems associated with the choice of privatisation methods.

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15

PRIVATISATION IN GHANA'S PUBLIC ENTERPRISE REFORM PROGRAMME

W.A. Adda

Introduction

The standard economic prescription for countries burdened with a large, inefficient and costly public enterprise sector is to expose those enterprises to the rigours of market competition. The advocates of this prescription argue that the efficiency of an enterprise will be at its highest when it strives to maximise its profits in a competitive market, when its managers have the autonomy, the ability and the motivation to pursue this goal and when enterprises which cannot compete go out of business. The conventional diagnosis goes on to note that state enterprises seldom face competitive market conditions, that their objectives are often different from, and incompatible with, profit maximisation, that managerial autonomy and accountability are compromised by government interference in operational decisions and that the ultimate sanction for failure – liquidation – is rarely imposed.

Privatisation is one of a small number of strategies for exposing public enterprises to the discipline of market forces. Whether privatisation will lead to the desired transformation of an enterprise depends heavily upon the creation of a suitable institutional framework: a framework is allowed or encouraged to operate. One of the chief lessons in Ghana's experience with public enterprise reform is that a framework of existing law and customary practice can make it difficult to manage a profitable operation under any form of ownership. In our experience such institutional impediments to reform have been encountered in areas ranging from labour relations and collective bargaining, to the valuation of productive assets, to the calculation of production costs, and to the determination and taxation of profits.

Before we turn our attention to public enterprises, and in particular to Ghana's experience with their divestiture, whether through privatisation or liquidation, I shall first review briefly the development of our state enterprise sector and the circumstances which prompted Government to commit itself in the mid-1980s to a programme of major reform. This background is essential to an understanding of the policy objectives of reform and of the place of privatisation in the overall strategy we are pursuing.

Historical background of the state enterprise sector

In 1981, the state enterprise sector included more than corporations. State-owned enterprises (SOEs) dominated the mining, energy, utilities, business and financial services sectors f the total economy. In the modern formal sector, SOEs were predominant in construction, transportation and communications as well as in wholesale and retail trade. More than 240,000 workers were employed in public enterprises at the Census of 1984. Nearly 60,000 were employed in the Cocoa Board and its subsidiaries alone.

The dominant position of state enterprises in the economy had its origins in the period following Independence when it was the view of government that the battle should play a dominant and active role in the development of the economy. It was during the first half of the 1960s that many of the largest SOEs were created. By 1966, cocoa marketing and mining had become virtual state monopolies and state enterprises dominated the financial and insurance services sectors. The number of state-owned manufacturing enterprises also increased in the context of government import substitution strategy for industrialisation. Between 1957 and the end of the 1966 employment in public corporations increased more than tenfold, rising from 11,052 to 115,826.

Between 1966 and 1972, subsequent governments pursued, more or less consistently, a policy of shifting the emphasis in development to the private sector. Even so, the public enterprise sector continued to grow. A feature of this period was the separation of a number of government departments from the main civil service and their establishment as statutory corporations. Examples include the Post and Telecommunications Administration (now Corporation) and the Electricity Corporation of Ghana.

By 1972, when another change in government occurred, the non-financial SOEs were generally in a very weak financial state although improved over the period of 1969/70. Even so, the financial returns to government from its investments in enterprise were negligible; about half of the dividends paid to government in 1972 originated with the National Lottery Corporation. At that time the poor performance of public enterprises was attributed to such factors as a lack of managerial skills, overstaffing, and inappropriate pricing policies, and under-capitalisation.

In 1972, the new government's policy shifted to one of "gaining control of the commanding heights of the economy". At this time, government acquired majority interests in all significant mining and timber industries and progressively restricted participation by foreign investors. In the late 1970s, government also moved to confiscate a large number of private enterprises accused of financial malpractice

of one kind or another. By the end of 1981, government had accumulated a large portfolio of state-owned enterprises whose poor performance had become a threat to the economic and financial stability of the country.

From Independence in 1957 through to December 1981, successive administrations have pursued different policy agenda respecting the role of the state in the economy. Often they have appeared to be mainly concerned with reversing or negating the policy framework of a predecessor government. Our political history has left its mark on both the composition of the public enterprise sector and on the legal and institutional framework for SOE governance. The legacy remains an important part of the background, circumscribing well as the scope for divestiture. In Ghana, the term "divestiture" embraces both the privatisation and liquidation of state-owned enterprises.

These circumstances are the background to Ghana's decision to launch the Economic Recovery Programme (ERP) in 1983. The reform of the state enterprise sector is an important part of the national recovery effort, supported domestically and externally as an integral component of the ERP. The adoption by the PNDC Government of the principles incorporated in the ERP and its SOE reform component marks a significant departure from the strongly interventionist role characteristic of most governments of the preceding 35 years. Moreover, the strategy adopted for restructuring and reform implied a substantial departure from the perspectives which had informed government development strategy from Independence to 1983, with the sole exception of a brief and aborted effort at reform in the late 1960s and early 1970s.

The SOE reform programme

In developing its Economic Recovery Programme in 1983, government recognised the need to undertake a comprehensive reform of SEES in Ghana. To assess the problems of the sector and prepare a reform programme, government and IDA agreed that a comprehensive diagnostic survey of the SOE sector should be undertaken. Using these studies as a basis, a government task force formulated a comprehensive SOE reform programme whose major thrusts included:

(a) policy reforms to ensure that SEES operate in a commercial manner, including decontrol of prices, increased competition, new policies and procedures on government financial support for SEES, and strict limits on the creation of new SEES;

(b) institutional and legal reforms to ensure that SOE managers have autonomy in day-to-day operations while also strengthening their

accountability to government through restructuring the State Enterprises Commission;

(c) rationalisation of the SOE sector through divestiture (sales or liquidations) and mergers to reduce the financial and managerial burden upon government;

(d) rehabilitation of selected priority SEES which have the potential to be financially viable and are deemed critical to the success of ERP;

(e) improvements to SOE management and efficiency through staffing reductions, training programmes for managers and accountants, installation of Management Information Systems, and the preparation of corporate plans and financial audits; and

(f) restoring financial solvency and discipline by clearing cross-debts and arrears and by establishing clear guidelines and procedures for government-SOE financial relations.

In 1987, the SOE reform programme was formalised with the establishment of the present Commission by the State Enterprises Commission Law, 1987 (PNDCL 170) and the start of the Public Enterprise Project funded by IDA. At this time government held, whether directly or indirectly, a financial interest in more than 300 enterprises:

- 200 SEES in which government held directly a majority interest;
- 88 enterprises in which government held an equity interest indirectly through the holdings of state-owned banks and other financial institutions;
- 29 enterprises in which government held a minority interest.

Of the 317 enterprises in these three categories, government acquired its equity interest in 62 through confiscation. A number of SEES in which government has a direct majority interest are also partly owned by state-owned banks.

The Divestiture Programme 1987 - 1993

Our divestiture programme grew out of a realisation that a large portfolio of under-performing was a severe burden on public administrative and financial resources. A major motivation in formulating the divestiture programme was the need to realise the financial benefits that would result from relieving government of the growing drain on its resources. This had reached 12 per cent of expenditures in

1983/84, a level that severely reduced government's ability to address needs in other areas. A second motivation, reinforced by the conditions of structural adjustment assistance from the World Bank and IMF, was to encourage growth of the private sector by reducing the role of the state in the economy. This would be accomplished through, among other measures, the transfer to domestic and foreign investors of ownership and management responsibilities for state-owned enterprises.

The policy objectives for the divestiture programme were defined, in terms that continue to be relevant, by a government task force set up in 1987 to formulate the public enterprise reform programme:

(a) to improve the efficiency of the economy by encouraging private sector participation and investment;

(b) to develop a domestic capital market;

(c) to motivate the private sector;

(d) to reduce the fiscal deficit;

(e) to raise foreign exchange.

The divestiture of public enterprises has proceeded at a much lower pace than some of us would have hoped at the beginning of the SOE reform programme. The results to September 1993, as reported by the Divestiture Implementation Committee, are as follows:

Mode of divestiture	1988/90	1991	1992	1993	Totals
Sale of shares	8	3	5	2	18
Outright sale	4	13	4	1	22
Joint-Ventures	1	6	3	0	10
Lease	3	0	1	0	4
SOEs in liquidation	22	2	2	6	32
Total Divestitures	38	24	15	9	86
of which:					
Failed to close	2	9	2	0	13
Actual divestitures	36	15	13	9	73

The total gross proceeds of divestitures to September 1993 are reported to be cedi 55.8 billion. Just under half of the gross proceeds of divestiture relates to enterprises in which a foreign investor participated with a hard currency commitment. Overall, some 58 per cent of the final agreed sale price had not been received. Delays in payment have been much more serious in the case of local investors, and a number of deals have failed to close. Some 34 per cent of the proceeds payable in hard currency, mostly by foreign investors, are also outstanding.

Offsetting the gross proceeds from divestiture are substantial liabilities of the divested companies, assumed by government as a matter of policy. These include liabilities in respect to retrenched workers as well as obligations due to other creditors. In 1991, the only year for which complete information is available, such obligations assumed by government totalled more than half the gross proceeds of divestiture.

As of 1993, and of the 317 enterprises in which government had a financial interest in 1987:

- 221 continue in government ownership;
- 32 have been liquidated;
- 40 have been sold to private investors;
- 10 have been reconstituted as joint ventures of government and private investors;
- 4 have been leased to private sector operators or managers.

It is a reasonable conclusion from our divestiture experience that by mid-1993, the programme had not realised the objectives set in 1987. Also, the momentum and pace of divestiture had slowed down to a serious extent in 1993.

In the course of 1993, and partly in response to the lagging pace of divestiture, government took a number of decisions to revive the process. These measures were implemented in the first quarter of 1994 and included the sale of a portion of government's equity in Ashanti Goldfields Corporation by public offering to both foreign and domestic investors. In Ghana, the invitation of share subscriptions from the general public was advertised in mid-March. This privatisation is estimated to yield in excess of US$ 300 million. In February 1993, government also sold its holdings number of international investors. The gross proceeds of this established a target of cedi 40 billion to be realised from privatisation, over and above proceeds from the flotation of Ashanti Gold Fields Corporation.

Problems in the divestiture programme and process

A number of specific issues that have affected the progress of the divestiture programme can be mentioned briefly. Their importance lies mainly in the lessons they offer for the formulation and implementation of our future strategy for divestiture. In most cases corrective measures have been taken and while the situation is not perfect, the measures have greatly improved the situation. In summary, the divestiture programme has suffered from both policy-related issues and practical difficulties.

These include:

- lack of a clear and comprehensive commitment and policy and privatisation;
- perceptions among a significant segment of the general public and the investment community of a lack of transparency in the administration of the divestiture programme;
- slowness in developing alternatives to the negotiated private sale mode of divestiture that would foster development of domestic capital markets and encourage broad public participation in the ownership of productive enterprise; and
- financial costs of workforce rationalisation associated with the privatisation of liquidation of public enterprises.

Lack of a comprehensive strategy for privatisation

A consistent policy stance is the essential signal to investors of government's intentions with respect to privatisation. Both government and the general public are aware that a large number of commercial enterprises owned, and generally poorly managed, by government serve no important policy purpose. The practice in divestitures to date of retaining a substantial minority interest, to the order of 40 per cent of "divested" companies, does not communicate a serious intent to withdraw from direct ownership and management intervention in respect to commercial SEES.

The perceived absence of a clear and comprehensive strategy for privatisation over the first years of the reform programme can be related to a number of factors. The initial list of 32 enterprises identified as candidates for privatisation included a large number of companies which were distinctly unattractive and unsaleable.

In the out-turn, nearly two-thirds were eventually liquidated. This particular list invited criticism to the effect that government was not serious in its commitment to privatisation.

The second list of 42 enterprises for divestiture contained a smaller number of highly unattractive prospects and some which have attracted substantial investor interest. However, the fact that the greater portion of SEES included in the first two divestiture lists were enterprises confiscated by government did little to communicate a serious commitment to the divestiture of state-owned enterprises. It is only with the proposed divestiture of some of government's shares in Ashanti Goldfields Corporation, announced in 1993, that a truly attractive candidate for privatisation has been actively promoted.

It has also been the case that divestiture planning and policy-making has been severely hampered by the lack of reliable and current information about assets, production, sales or other normal business information. Much of the effort of the State Enterprises Commission over the past two years has been devoted to an improvement of the public enterprise information database, including assistance to enterprises to improve their capacity to prepare accounts and financial statements. These efforts have led to considerable improvements in the timeliness and quality of financial and other information about state-owned enterprises.

This improved information base has contributed to the divestiture process in two ways. First, it has made much clearer the weak financial and performance characteristics of a large number of enterprises. This has been an important factor in government assigning a higher priority to divestiture than was previously the case. Second, the improved information provides a better basis for planning and implementing a divestiture strategy. The improved quality of information has combined with the disclosure and public review of the facts of SOE performance and condition to contribute to a much clearer expression of the policy framework for divestiture.

Transparency of process

Since 1993 privatisation has mainly taken the form of deals negotiated in private discussions with individuals and groups of investors. The characteristic atmosphere of secrecy in which these negotiations are carried out continues to be a serious weakness in the programme. The transparency of process that should be government's priority concern has been missing, creating opportunities for speculation that undermine investor confidence and public support for the programme.

The growing importance of alternative channels for privatisation, particularly by way of public offerings and stock exchange listings, is making the entire process inherently more transparent. The divestiture of Ashanti Gold Fields Corporation has taken place in the full glare of public awareness and debate. One consequence of the intense public interest generated in this flotation was the allocation of a portion of the international offering to residents of Ghana and ECOWAS countries. In the same vein, nothing could have been more transparent than the decision to convert 32 statutory corporations into public limited liability companies: the issue was fully discussed in Parliamentary committee and debated thoroughly in the House before enactment of the enabling statute. In contrast, the disposition of government's shares in seven companies listed on the Ghana Stock Exchange to a group of foreign investors illustrates a Stock Exchange to a group of foreign investors illustrates a continuing lack of transparency in some parts of the programme.

The transformation of a major public enterprise into a closely held private corporation is not consistent with government policy objectives. Foremost among these is the desire to move away from the previous structure of closely held private sector enterprise that are not subject to public scrutiny and towards a more open, publicly accountable structure for private business enterprises. Unfortunately however, the weakness of domestic capital markets and of financial institutions has made the development of alternatives to the negotiated private sale heavy going.

Alternative channels for divestiture

The issues of transparency of process and of a perceived lack of clarity in government objectives and programmes are closely interconnected and are being addressed through efforts to develop alternative channels for divestiture. The changes being introduced are an attempt to broaden the channels for divestiture to include some that are inherently more transparent. These include corporatisation and the public offering of shares in major enterprises. The next phase of privatisation will be carried out so as to broaden the base of public participation int he ownership of profitable public enterprises.

The undeveloped nature of Ghana's capital markets makes it difficult to raise the capital required to purchase a more or less viable enterprise and to finance the rehabilitation of its productive capacity. Local investors have also encountered difficulties in securing local finance or guarantees through the banking system, even at a time when the system has a problem of excess liquidity. The difficulties of mobilising domestic capital resources remain a severe impediment to the privatisation process.

Government has therefore taken steps to establish a framework of institutions that would strengthen domestic capital markets. In January 1991, listing regulations of the Ghana Stock Exchange were gazetted (L.I. 1509); trading in the shares of a small number of companies (11) began in November, 1990. Since then, four additional companies have been listed and a fixed income security????. Trading volume has increased rapidly: from 2 million shares in 1992 to 36.8 million in the first nine months of 1993. The value of shares traded increased from cedi 173 million to nearly cedi 3 billion over the same period. There is little doubt remaining that, given a suitable institutional framework, domestic capital resources can be mobilised for investment purposes.

Further measures to develop access to broader capital resource pools are under consideration. These include regulations in respect of foreign direct investment and measures that will facilitate equity rather than debt as the means for raising investment and operating capital. While we understand the importance, and indeed the need, to tap external capital resources, we also believe that we need to emphasise the strengthening of our domestic capital markets. At the same time, we are concerned to encourage equity over debt participation and to encourage long-term capital resource commitments from both domestic and foreign investors.

Costs of Workforce Rationalisation

For government, one of the most serious problems raised by the divestiture programme relates to the rights of workers who are retrenched in the process. Over the years, staffing levels in most public enterprises reached excessive levels; levels completely out of touch with the functional requirements of a productive enterprise. This widespread situation was made worse by a general absence of responsible collective bargaining in the public enterprise sector over a period of at least a decade. The situation is, of course, one of the major reasons why a state enterprise reform programme is required.

For divestiture, and privatisation in particular, the twin issues of over-staffing and undisciplined collective bargaining posed a serious practical problem: how best to cope with the substantial liabilities for accrued end-of-service benefits to which redeployed workers were contractually entitled? These were largely unfunded and, in many cases, exceeded the net worth of the enterprise.

Since 1990, government has taken a number of steps to correct problems in this area. The transition to a national pension scheme was announced in October 1990, replacing the retirement gratuity provisions of collective agreements. The outstanding retirement gratuity entitlements were frozen as of December 1990. All workers in both public and private sectors are now included in the retirement

pension scheme administered by the Social Security and National Insurance Trust (SSNIT).

Measures to standardise and rationalise entitlements to severance or redundancy payments have been recommended by the Commission since 1988 as part of the necessary reform of legal frameworks. The re-drafting of labour legislation is now under way, the first major overhaul in nearly 30 years. While the costs of workforce rationalisation have not yet been completely resolved, we are optimistic that the key elements of the reformed institutional framework will be in place before the end of this year and that definitive arrangements for the full discharge of outstanding liabilities to workers will be in place.

Priorities for strengthening of training capacity in support of public enterprise reform and privatisation

In the overall strategy of the SOE reform programme, SEC training programmes focused on two primary objectives:

(i) to develop management capacity and support for the implementation of high priority corporate reform and restructuring measures; and

(ii) to establish at the level of the enterprise a "training culture", supported through the development of linkages with local training and management development institutions.

In 1992, the Commission, with the co-operation of local training institutions, conducted an assessment of their capacity to meet the training needs identified in the TNI project. It is the conclusion of the Commission, based on this assessment and our experience over a period of two years, that local training institutions, firms and individuals have the capability of meeting the general training needs of most SEES in such areas as:

- general management;
- management information systems;
- human resource management;
- investment analysis.

In other areas of the Commission's assessment, local training institutions need to develop their capability to meet the requirements of the programme in such areas as:

- corporate planning and budgeting;
- organisational restructuring;

- performance contracting.

In summarising priorities for further strengthening of our capacity for public enterprise reform in general, and for privatisation in particular, it might be a good idea to define what we mean by privatisation. Here we can note work being done under the auspices of UNCTAD. In recently issued documents they have described privatisation in the following terms:

> "Privatisation is part of a process of structural adjustment ...redefining the role of the State ... with the overall objective of achieving economic efficiency. It is first and foremost a political process, although it has to be carried out as an economic exercise."
>
> and
>
> "Privatisation may involve: (a) non-divestiture options: corporatisation, the privatisation of management contracts, leasing, concession, and the contracting out of public services and (b) divestiture options: the privatisation of capital."

Our corporatisation strategy involves, as a first step, the conversion of statutory corporations into public limited liability companies. Enabling legislation, the Statutory Corporations (Conversion to Companies) Act (Act 461), was passed by Parliament in 1993. The conversion of 32 major public enterprises employing more than 100,000 people, and their registration as limited liability companies under the Companies Code is now in progress. A principal objective of this strategy is to direct these enterprises to domestic and foreign capital markets as the source of funds for necessary capital restructuring. Recapitalisation may be by way of an equity offering, through the flotation of tradeable debt instruments, through the sale of assets or any of a number of other means open to public limited liability company.

Following from this, it is our expectation that the need to maintain access to capital markets will impose a discipline and concern for profitability in the management of these enterprises that has often been lacking in the past.

The changing structure of responsibility and accountability associated with the implementation of this strategy will impose new demands on enterprise boards and management as well as on the staff of sector ministries. This is one area in which the need for strengthened locally-based training and support services is particularly pressing.

Board members need to be prepared to assume their new responsibilities in such areas as collective bargaining, capital restructuring and executive compensation.

Management needs training in these areas as well as professional support in the design and implementation of reform measures that range from organisational restructuring through pay and job classification issues to workforce rationalisation. For those of us with responsibilities in government for managing public enterprise reform there is a need for training in the relevant technical skills and policy analysis.

16

PRIVATISATION: THE ZAMBIAN EXPERIENCE

E.C. Kaunga

Background to State-Owned Enterprises in Zambia

The Zambian economy is characterised by a heavy predominance of state-owned enterprises (SOEs), often referred to as parastatal organisations. Estimates put the share of SOEs in industrial activity at about 80 per cent with the private sector taking up the remaining 20 per cent. The SOEs span virtually all sectors of the economy notably mining, energy, industry/manufacturing, agriculture, transport and communications, trade, tourism and construction.

In terms of the current organisational set up, most of the state-owned enterprises are part of a conglomerate known as the Zambia Industrial and Mining Corporation Limited (ZIMCO), a state holding company charged with the responsibility of supervising and monitoring the operations of the SOEs under its wing to protect government interest in these companies. Until recently, ZIMCO also had the responsibility of undertaking new investments on behalf of government. While a number of operating companies were supervised directly by ZIMCO, the greater proportion of the group companies fell under four sub-holding companies which in turn reported to ZIMCO as follows: Zambia Consolidated Copper Mines (ZCCM), Industrial Development Corporation (INDECO), National Hotels Development Corporation (NHDC) and National Imports and Export Corporation (NIEC) taking care of the trading sector.

While the ZIMCO Group comprises the bulk of SOEs in the Zambian economy, it is important to note that there are a number of parastatals outside the ZIMCO umbrella. These would be largely statutory organisations controlled from respective parent ministries via their boards of directors. There are also a small number of companies created by Acts of Parliament. Some of the major non-ZIMCO SOEs are as follows:

State Lotteries Board
Diary Produce Board (DPB)
Development Bank of Zambia (DBZ)
National Savings and Credit Bank
Zambia National Tourist Board

Mulungushi Textiles Limited
Airport Farms Limited
Chanyanya Rice Project
Small Industries Development Organisation (SIDO)
Small Enterprises Promotion Limited (SEP)
Makeni Clothing Manufacturing Limited
Medical Stores Limited

In the Zambian context, therefore, the term parastatal or SOE is used to refer to a public enterprise (i.e. state-owned) which is quasi-autonomous and outside the regular civil service structure. This category comprises companies of a purely commercial nature set up under Cap 686 of the Laws of Zambia – the Companies Act; and also those on the list just referred to above, i.e. statutory boards and companies established by Act of Parliament.

It is useful to trace the background to the present predominance of the parastatals in the Zambian economy before a fuller appreciation of the on-going policy of privatisation and private sector development can be attained.

The emergence of state participation in the commercial sector dates back to the 1968 Economic Reforms – otherwise referred to as the "Mulungushi Reforms" (for the location, Mulungushi Rock, at which the policy pronouncement by President Kaunda was made). The nationalisation pronouncements of 1968 resulted in the state assuming 51 per cent ownership in some twenty-five companies mostly in manufacturing, transport distribution and construction which were now brought under the umbrella of the Industrial Development Corporation (INDECO), a state-owned organisation which had been set up on colonial times essentially as an instrument for stimulating industrial development. It must be stressed that the role of INDECO in the pre-1965 period was limited to that of promotion and finance of industrial ventures. The advent of state-owned enterprises with the takeovers of 1968 saw INDECO assume new, wider roles of holding company and shareholder. The organisation was now to play a pivotal role in initiating industrial ventures as well as overseeing the operations of subsidiary companies.

At the time of the takeovers, the main concerns of the Zambian Government were the following:

- Failure by the largely foreign investors to re-invest sufficiently in the economy.

- Excess repatriation of profits at expense of development in Zambia.

- Acute economic imbalances:

- rural-urban gap accentuated by private investors' preference to concentrate activities in urban areas;

- gap between indigenous Zambians and the foreigners.

- Failure by private investors to develop local human resources with the result that virtually all aspects of economy were under the control of foreigners or settlers of foreign origin.

- Inordinate economic power wielded by foreign private investors.

- Apparent impotence of the government of the day in directing the pace and direction of economic development following from the above.

In effecting the policy of state participation, the Government sought to achieve the following:

- Take control of the "commanding heights" of the economy as it were, and be able to dictate the pace and direction of economic development.

- Restore economic power to government and through government to the people of Zambia. In the absence of a fully developed local entrepreneurial class, government was to act as surrogate for the people.

- Check the excessive outflow of profits and ensure that more earnings were retained for reinvestment in the country.

- Redress the income inequalities:
  - rural-urban;
  - foreign-local;

- Develop local human resources.

In addition to the takeover of controlling interest in the initial group of twenty-five companies, there were other accompanying measures taken in the wake of the policy address of 1968 on "Zambia Towards Economic Independence". Some of the measures were as follows:

- Regulation of activities, size and locatio of private foreign enterprise.

- Reincarnation of INDECO as a holding company.

Whereas the path-breaking speech of 1968 had made some intimation that the mining industry was not to be affected by the reforms, this position was to be quickly reviewed. In 1969, the Government took the policy a step further by announcing the takeover of the mines. The "Matero Reforms", as the 1969 speech is often referred to, heralded the acquisition of 51 per cent equity holding in the mines owned and run then by Anglo-American Corporation (Central Africa) and Roan Selection Trust.

When the takeover negotiations were concluded in 1970, the mines were re-organised into two groups:

(i) Nchanga Consolidated Copper Mines (NCCM); and

(ii) Roan Consolidated Copper Mines (RCM).

Government created a new holding entity called Mining Development Corporation (MINDECO) which was to hold 51 per cent of the shares each in NCCM and RCM on behalf of the state.

Further Evolution of State-Owned Enterprises in Zambia

From the tentative origins of state participation in the post-independence period when the main focus was to complement private initiative, the parastatal/public sector took off at a brisk pace in the post-1969 period. More companies were to join the list of the nationalised and in addition, new SOEs were created. In due course, state participation got entrenched with the ideological blessings following the philosophy of Humanism as a path towards socialism.

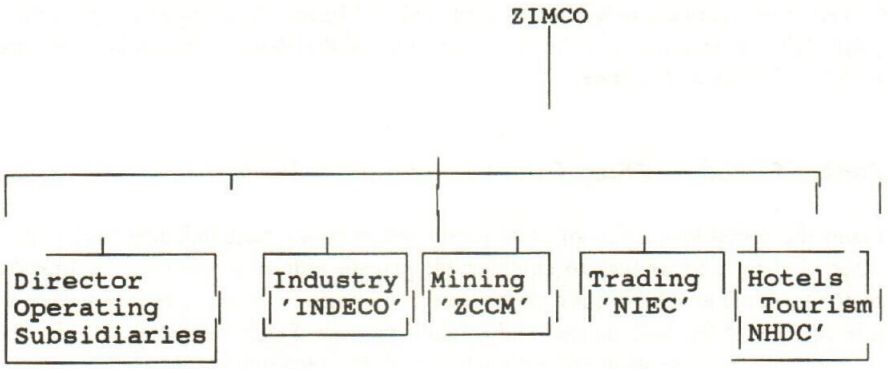
As the pace of nationalisation and direct state involvement in the economy picked up, it soon became clear that the inherited organisational structure of INDECO as a holding company would not suffice. On 31 March 1970, the Zambia Industrial and Mining Corporation (ZIMCO) was incorporated to provide a single holding company for government's numerous investments previously held under INDECO. The role of ZIMCO in its simple format then was essentially that of an agent of government – to hold its investments. It is important to note that at this time ZIMCO, the apex organ, was no more than a mere paper holding company with no executive management. The actual supervisory control over the boards and company managements was vested in respective line ministries. Later on, this study will outline the subsequent re-organisations occasioned by perceived inadequacies of the above arrangements.

From its humble origins in the late sixties, the parastatal sector in Zambia grew to a position of such dominance that by 1972 it was estimated that public/parastatal sector accounted for 53 per cent of total manufacturing GDP and its share in employment was 42 per cent. By 1980, the shares of parastatals in total GDP and formal employment were put at 56 per cent and 54 per cent respectively.

Prior to the most recent organisation-restructuring of the ZIMCO Group in April 1993 (about which we comment later), the growth of this major category of SOEs was such that SOEs were the backbone of the economy.

The SOEs under the ZIMCO Group, i.e. those established under the Companies Act, were organised on the basis of the following structure:

Fig. 1



In terms of the structure of equity holding of the SOEs under the Zimco wing, the pattern was as per the following chart:

Government Equity (through ZIMCO)	No. of SOEs
100%	62
51-99%	32
25-50%	5
‹25%	2

Source: Various Financial Reports, ZIMCO Ltd.

The total size and spread of the ZIMCO Group SOEs can be assessed from Appendix 1 which lists the subsidiaries and associated companies and also the percentage of equity attributable to the group. It is important to note that the information presented here was as at the last available consolidated financial reports (i.e. 31 March 1992). It is a fact that since then a few companies have left the group with the launching of the divestiture programme.

Review of Performance of SOEs

As a prelude to the discussion of the series of re-organisations and restructuring of SOEs, in particular those under ZIMCO, it would be interesting to have an overview of the performance of these parastatals over the years. This would provide an appropriate backdrop to the changes that ensued, leading ultimately to the landmark decision to reverse the policy on direct state participation in industry.

The financial performance of the SOEs in the period between 1969 and 1978/79 was far from satisfactory. Losses for most SOEs mounted up and many companies were on brink of collapse. There were a number of factors which could be linked to this trend:

- poor capitalisation of companies;
- poor management - political appointees and frequent changes at CEO level;
- lack of accountability and poor supervision and monitoring systems - boards were weak and ministries too busy to execute effectively as supervisory organs;
- conflict between commercial and political/social objectives.
- general economic constraints associated with the state of Zambia's economic standing then - foreign exchange crises, over-dependence on imports, etc.

If one focuses on the industrial sector of the ZIMCO Group, reported results indicate that while net contributions were made to government of the period 1971-1974, the inherent financial weaknesses of SOEs in this sector manifested themselves by 1975 with several firms registering losses and government having to provide subsidies in excess of K8 million to shore up operations of loss-makers. However, it should be emphasised that the subsidies were directed largely at those companies affected by the impact of price controls imposed by the state on so-

called essential goods (mealie meal, sugar, cooking oil, etc. – at the time the controlled list comprised over eleven items).

The persistent poor financial out-turn of SOEs in the industrial sector, in particular (in several cases negative profits) had the effect of eroding the capital base of many companies resulting in excessive recourse to borrowing.

The results recorded by ZIMCO over the five-year period from 1988 to 1992, which was after several re-organisations within the group, reflect a much improved picture. The turnover for the group grew from K23.9 billion in 1988 to K232.1 billion in 1992. The profit before tax (consolidated) for the ZIMCO Group moved from K1.8 billion in 1988 to K33 billion in 1992.

The parastatal sector companies for quite some time had been miserable performers to the extent that no dividends had been paid to the ultimate shareholders – the Government. It is of significance that, since 1986, ZIMCO has been able to pay an ever-increasing dividend as shown in following chart:

Fig. 2

Dividends Paid by ZIMCO to Government

Year	85/86	86/87	87/88	88/89	89/90	90/91	91/92
Dividend Paid - K' Million	4	20	40	150	250	350	1,050

Source: ZIMCO Annual Reports and Audited Accounts, 1986-1992

Apart from cash flows to government in the form of dividends, the significance of SOEs in the Zambian economy can also be assessed by looking at the trend over the years in the overall contributions of the ZIMCO Group companies to the government treasury in the form of taxes, duties and other taxes and fees as shown in Fig. 3:

Fig. 3

Contributions of ZIMCO Group to Exchequer

Year	1988	1989	1990	1991	1992
K'million	1,787	2,827	7,825	19,244	34,657

The financial performance figures referred to here have to be seen within the wider context of the size of the group which was made up of just about 110 companies as at the end of 1992 with total group fixed assets valued at about K182 billion as at 31 March 1992. The group's share capital stood at K3,109 million.

Restructuring and Parastatal Reform

Reference was made earlier on to the poor performance of SOEs in the period up to 1979. From the inception of state participation, various organisational arrangements were tried with a view to improving efficiency of SOEs. Originally, INDECO was the sole holding company. Later in 1970, ZIMCO was incorporated to carry the increasing load of SOEs. Initially, ZIMCO fell under a Ministry of State Participation. Later on, SOEs were linked to line ministries. However, the arrangement of parastatals accountable to ministries did not really improve efficiency. Boards were weak and ministers and permanent secretaries were too busy with government functions to be able to provide effective supervision. As observed earlier, the performance of SOEs continued to slide.

The mounting concern over the poor showing of the parastatals culminated in a major re-organisation of ZIMCO in 1979. Cabinet ministers were removed from direct involvement in running of ZIMCO companies and an Executive Directorate was created at ZIMCO to be accountable for the Group's operations. Residual political involvement was retained only at ZIMCO Board level where key economic-related ministers would sit as directors together with other directors from government institutions and the private sector. Further, some of the sub-holding companies were abolished and the operating companies placed directly under ZIMCO. INDECO sub-sectoral divisions were eliminated. The structure that emerged is the one shown earlier under Fig. 1 with four subholding companies under ZIMCO.

The earlier structures in the early 1970s tended to lay greater emphasis on direct political control of SOEs to achieve social-political objectives such as an increase in employment, regional spread of industry, affordable goods and services. Such bias in time resulted in the running down of companies. The thrust of parastatal reform since 1979 has been towards better management control at firm level and emphasis of political intervention. Boards have been strengthened over time by the inclusion of private businessmen. In short, government sought to restore parastatals to their rightful place as commercial concerns first and foremost.

Under the re-organised structures, ZIMCO and the few subholding companies put in place various management information reporting systems to improve monitoring and accountability. Monthly reporting of financial results to head office was instituted. Corporate/business planning systems were introduced and budget performance was to be monitored by holding company as well as by the respective boards of directors. In essence, the objective of these changes was to enable the SOEs to operate on commercial terms.

Decontrol of Prices

Apart from the organisation changes referred to above, one very significant aspect of government policy which impacted heavily on the financial health of SOEs was price control. Earlier we referred to price control as one factor which led to poor financial performance of SOEs (and indeed private sector companies). In December 1982, government lifted (formally at least) price controls on all items except maize meal, wheat products and candles. This represented a giant positive step even if informal controls were to permit for some time.

Parastatal Reform Industry Sector

In the continuing quest for improved efficiency of SOEs, the Industrial Development Corporation (INDECO) identified a total of twelve companies which were put through a comprehensive diagnostic turn round study under World Bank funding. This study (IDAT) was undertaken between 1986 and 1988 and covered the following companies:

Crushed Stones Sales Limited
Kapiri Glass Products Limited
Zambesi Sawmills Limited
Luangwa Industries Limited

Mwinilunga Canneries
Zambia Steel & Building Supplies Limited
Supa Baking Company Limited
Zambia Ceramics Limited
Consolidated Tyre Services Limited
Monarch Zambia Limited
INDECO Milling
Livingstone Motor Assemblers

The IDAT study was designed to identify major operational and organisational weaknesses of the listed companies and to propose practical ways of correcting these so that the companies could turn round. The initial results from the study were not encouraging with most of the target group companies showing improved performance.

Parastatal Reform - ZIMCO

The most recent effort in the area of parastatal reforms commenced in 1990 with the drawing up of the terms of reference for a major parastatal reform study as a follow-up to the earlier industry one. With the coming in of a new government with a stronger bias towards economic liberalisation and privatisation, the focus of the study had to be reviewed. The study considered the future roles and the necessary restructuring of ZIMCO and its subholding companies within a liberalised economy, taking into account the on-going privatisation programme. The consultants' report (Price Waterhouse & Gopa) was presented in May 1992. The major recommendations can be summarised as follows:

(a) Transformation of ZIMCO, the holding company, into an Investment Holding Company to focus mainly on supervision and monitoring to protect government investments in SOEs prior to divestiture.

(b) The transformed ZIMCO to devolve most functions to operating companies but to insist on more accountability.

(c) Phasing out of three subholding companies, INDECO, NIEC and NHDC with oversight functions going to transform ZIMCO.

(d) Strengthening boards of ZIMCO and operating companies.

(e) Establishment of Utilities Secretariat to oversee the operations of public utilities and perform interim regulatory role.

The recommendations in the consultants' report were accepted by the Board of ZIMCO in August 1992. The restructuring of ZIMCO and subholding companies took effect on 1 April 1993. The transformation process has resulted in considerable downsizing of manning levels at holding and subholding level from 700 (ZIMCO, NIEC, NHDC + INDECO) to about 180 (currently in ZIMCO).

Regulation of Public Utilities

Following from the recommendations of the report on public utilities, ZIMCO's regulatory role is only transitional. The Government, through ZIMCO, has commissioned a study to look into arrangements for regulation of public utilities. The utilities in question are:

Railways (Zambia Railways)
Electricity (ZESCO)
Postal & Telecommunications (PTC)
ZIMOIL (importation and refining of petroleum)

The study is funded by IDA (under the Privatisation and Industrial Reform Credit - PIRC).

The main issued to be addressed in the study are as follows:

(i) Rationale for regulation;
(ii) Single or multiple agency option;
(iii) Legal status of agency;
(iv) Organisational structure of regulator;
(v) Monitoring of service output and standards;
(vi) Price/tariff regulator;
(vii) Environmental factors.

In promoting this study, it is clearly recognised that even with or without privatisation, utility organisations require special oversight because of the critical impact the services provided have on the entire economy. The function of regulator is one which is relatively new in Zambia. To date what we have had is merely ad hoc (arbitrary) controls on tariffs.

It is likely that the establishment of a regulatory system will run into a skills constraint for virtually all the different areas listed.

Privatisation: Policy Framework

From the foregoing analysis of endeavours made towards reforming the parastatal sector, it is clear that there had been general dissatisfaction over the performance of SOEs. While it was acknowledged that parastatals in Zambia had scored some successes in the areas of human resource development and to some extent promoting diversification of industry, their general levels of efficiency left much to be desired especially on account of their vulnerability to political interference.

The turning point in terms of direct articulation of policy on privatisation came at the 5th National Convention of the United National Independence Party (UNIP) held from 14 to 17 March 1990. At this forum, then President of Zambia, Dr. Kaunda, emphasised the importance of promoting entrepreneurial development and the need to create private sector competition for parastatals.

At this same forum, the Committee's deliberations on the economy addressed the issue of privatisation in serious terms. In the resolution, the convention felt that: "no national interests are threatened by opening up of any public enterprises to direct and limited individual private citizen full or part ownership (Resolutions of Economic Affairs Committee, 5th National Convention of UNIP - March 1990).

In the New Economic Recovery Programme, Economic and Policy Framework 1989-93 document of August 1989, some reference was made to the promotion of privatisation of only in a partial manner:

> ".....facilitate a phase out of non-viable parastatals operations, and encourage joint ventures with private sector".

There was a gradual build up of some national consensus on the need for a fundamental shift from the then entrenched policy of direct state participation in commercial activity. As a prelude to the landmark pronouncement of May 1990, President Kaunda on 19 April reviewed the major considerations of state participation as conceived in 1968 as being:

- lack of Zambian entrepreneurs;
- desire to break up monopoly pricing cartels;
- concern about the predominance of foreign investors with no commitment to development of host economy.

Having reviewed the state of the economy since 1968, the view of government was that the programme of state involvement had run its course and that it was time for change. The pronouncement of May 28 1990 set Zambia on the course towards

dismantling state-owned enterprises. It was announced that government had decided to:

> "devolve more economy power to the Zambian people through a scheme by which the state will sell part of its capital in state enterprises to the general public",
> (Dr Kaunda's address to 5th Extra Ordinary National Council).

The privatisation programme as pronounced then was to see the state offer up to 40 per cent and 49 per cent of shareholding in the following categories of industries respectively:

(a) Public Utilities
(b) Mining, Industrial & Commercial

The basic objectives of the new policy were to "give economic power to the people". In addition, the following broad benefits were anticipated:

- wider distribution of wealth;
- supplementation of incomes of shareholders;
- raising revenue for government from sale of shares;
- improvement in quality of company managements.

The Government was also to arrange for the setting up of a stock exchange to facilitate public participation in ownership of companies.

As a follow up to the May 1990 statement, the Budget Address of 16 November 1990 reinforced government's stand on privatisation - by indicating that outright sale of SOEs was in the offing.

The new MMD Government which came in after the general elections of October 1991 propounded economic liberalisation as the main thrust of economic recovery programme and the privatisation programme was to be a cornerstone of the strategy. At a meeting with Head of foreign missions on 5 December 1991, President Chiluba stated that the new government was totally committed to privatisation and disengaging government from direct involvement in commercial activity. The MMD Government's view was that privatisation would be total and there would be "no sacred lambs".

The Budget Speech of January 1992 gave a clear delineation of government's overall economic philosophy and its perspective on the roles of public and commercial sectors. Government was to revert to the normal role of providing public infrastructure and services and ensuring a sound fiscal and legal and economic environment. It was clearly stated that the privatisation programme was to proceed expeditiously.

Progress in Implementation of Privatisation Programme

From the outline given above, it is clear that there was an overlap between the evolvement of policy and the establishment of institutions to execute the programme. The previous government set up a Task Force on Privatisation in September 1990. The main objective of the task force was to examine and recommend modalities for implementing policy of privatisation.

The task force, which was based at ZIMCO head office, submitted its report to the Minister of Finance in January 1991. Following from the report, government set up the Steering Committee on Privatisation (whose composition was broad-based) which was to be serviced by a technical committee. It was this organ (Steering Committee) which put together the initial framework for the launching of the privatisation process. However, up to this point in time, there was still no legislation in place to give support to the institutions that had been created on an administrative basis only. By mid-1991, the Steering Committee had identified the first tranche of companies which were to be sold off on a trade basis. The list was as below:

AFE Limited
Consolidated Tyre Services Limited
Crushed Stone Sales
Eagle Travel
Mwinilunga Canneries
Zambia Clay Industries
Zambesi Sawmills
*Lublend
*Nkwazi Manufacturing Company
*Poultry Processing Company

*Minority shareholders had pre-emptive rights.

When the list of companies was advertised, there was an overwhelming response from investors, with over eighty inquiries for the seven companies put on open tender.

The processing of the disposal of the first tranche had to be put on hold with the ushering in of the MMD Government at the end of October 1991. There followed a period of uncertainty over the future management of the programme. The Steering Committee was suspended but the Technical Committee continued under the oversight of the Ministry of Commerce, Trade & Industry. The new government made a commitment to introduce legislation to facilitate the execution of privatisation.

In July 1992, the Privatisation Act (No. 21 of 1992) was passed, establishing the Zambia Privatisation Agency (ZPA). The main functions of the Agency were outlined as follows:

(a) recommend privatisation policy guidelines to Cabinet;

(b) implement programme as per approved guidelines;

(c) oversee all aspect of programme;

(d) monitor progress of programme;

(e) prepare long-term divestiture plan for approval by Cabinet;

(f) recommend modes of sale;

(g) maintain close liaison with relevant institutions;

(h) publicise activities of programme.

Clearly, the Act attempted to outline in considerable detail the functions of the Agency to address the many concerns expressed over sound management of this critical programme. The Act went on further to spell out the various modes of privatisation the Agency could at its discretion recommend for adoption:

- public office of shares;
- private sale via negotiated or competitive bids;
- dilution of government shareholding;

- sale of assets and business of SOEs;
- management/employee buy outs;
- lease and management agreements;
- re-organisation of SOE prior to sale – wholly or partially;
- any other mode as may be deemed appropriate by the Agency.

From the foregoing, the Agency had a very wide list of options to employ depending on the specific circumstances of a particular SOE.

With the establishment of the ZPA as a legal entity, the legal institutional basis of Zambia's privatisation programme was now secured. Once in place, the ZPA drew up a divestiture sequence plan which was to be the basis of the execution of the programme. The plan was to span a period of five to ten years with eleven (11) tranches in all. Appendix 2 shows the original divestiture sequence plan. Notably, the first tranches were modified quite a bit with the removal of one company and the expansion of the list to nineteen.

The first tranche was made up of generally small companies with no major complications and which could thus be easily sold off on a trade sale basis. The main object was to start the programme on a high note.

To date, a total of nine companies have been privatised from tranche 1 (although the completion processes may be pending in some of these):

Eagle Travel
Poultry Processing Company
Auto Care
AFE Limited
Coolwell Systems Limited
Zuva Zambia Limited
Prime Marble Products
General Pharmaceuticals
Zambia Maltings Limited

In addition to the above, Nanga Farms Limited (from tranche 2) was privatised by the restructuring of the equity holding to dilute ZIMCO's (GRZ) shareholding.

From the middle of 1993, the ZPA has made further efforts to advance the programme by initiating activity towards privatisation of some big companies in

tranche 2 - especially those with minority interests carrying preemptive rights. Negotiations for the privatisation of the following companies opened in mid-1993 and have now reached an advanced stage:

Zambia Breweries
Chilanga Cement
ZAMEFA

Because of the size of these companies, the consummation of deals in these would boost the programme immensely. In a broader perspective, the following areas also need to be addressed as they impact on the pace of the programme:

(a) *Funding of the privatisation programme itself*

Government is the main source of funding for the ZPA. The various steps outlined above require massive resources. It is important for government to ensure adequate funding if the programme is to be executed well. Donor funding has been welcomed but this should only supplement local efforts.

(b) *Funding of purchase of companies*

For local investors funding may be a constraint. There is a need to explore funding sources - venture capital funds, etc.

(c) *Human Resource Implications*

Where privatisation results in retrenchment of workers, the payment of redundancy benefits can become an issue. It is important that this matter be addressed by government and the Privatisation Agency. In any case, it is necessary to undertake a social impact review of the programme to ensure that negative social effects are mitigated. This is just being undertaken in the Zambian case.

In the meantime, the Agency has obtained clearance for modes of privatisation for twelve (12) companies in tranche 1.

Procedural Aspects and Technical Skills Gaps

While the presentation so far suggests that Zambia's privatisation programme is moving smoothly, it is important to highlight some of the problems being

encountered in various areas. In executing the privatisation process, the Agency has to go through the following stages:

(a) Produce Sequence Plan.

(b) Identify companies to be privatised.

(c) Prepare privatisation studies.

(d) Propose modes of privatisation and recommend approval.

(e) Prepare company and asset valuations in preparation for divestiture.

(f) Prepare Company Profile and Bid documents.

(g) Carry out negotiations with bidders and or minority investors.

(h) Prepare draft sale agreements.

The ZPA has received generous technical and financial assistance for items (c) and (e). Privatisation is a new idea in Zambia and there are a lot of areas in which the Agency could benefit from experiences elsewhere. Company valuations are of critical important in the process. The skills levels in ZPA and in the country are generally low. On the other hand, valuations attract a lot of attention from both the investors and the general public. It is critical that these are done in a competent and professional manner to ensure transparency. The valuation of plant and equipment presents particular problems in the Zambian context as there are not many qualified in this area.

The experience in Zambia to date also suggests that there is an urgent need to address the legal issues. Often sale agreements may be taken for granted as routine, however, in the transfer of companies on going concern basis or other basis,????? it is necessary to get competent commercial lawyers to ensure that the interests of both vendor and buyer are clearly protected. Apart from this, record-keeping in terms of title deeds and other legal documents is absolutely important. A process of tidying up by Company Secretaries in anticipation of privatisation would go a long way in expediting the programme. The company secretarial and legal functions therefore need to receive serious attention.

Conclusion

The privatisation programme in Zambia has been in active existence for only about two years. The institutional arrangements set up to facilitate the programme are barely settling in. Nevertheless, considerable progress has been made in advancing the programme, although there are some quarters who feel the programme could go faster. It would be folly to sacrifice thoroughness and transparency in the quest for 'speed'.

Other institutions, complementary to the ZPA, have just been established – namely the Lusaka Stock Exchange and the Privatisation Trust Fund. It is expected that in due course, these organs will make their contribution towards attaining some of the goals of the programme, such as broad-based ownership of assets.

List of Subsidiary and Associate Companies

The operating subsidiaries and associate companies of Zimco are listed below.

(a) Subsidiaries	Percentage of Equity Attributable to the Group 1992	1991
* BP (ZAMBIA) LIMITED	50	50
*Zambia Re-refiners Limited	50	50
CONTRACT HAULAGE LIMITED	100	100
INDENI PETROLEUM REFINERY COMPANY LIMITED	50	50
INDECO LIMITED	100	100
*AFE Limited	100	100
*Anros Industries Limited	80	80
*Chilanga Cement Limited	60	60
Consolidated Tyre Services Limited	100	100
Crushed Stone Sales Limited	100	100
*E.C. Milling Company Limited	100	100
*General Pharmaceutical Limited	100	100
*Chirardi Milling Company Ltd.	100	100
Indeco Estate Development Company Limited	100	100
Kabwe Industrial Fabrics Limited	100	100
Karironda Limited	54	54
*Kafue Textiles of Zambia Limited	56	56
*Kapiri Glass Products Limited	89	89
*Luangwa Industries Limited	100	100
*Lusaka Engineering Company Limited	60	60
*Mansa Batteries Limited	100	100
*Metal Fabricators of Zambia Limited	51	51
*National Drum & Can Company Limited	100	100
*National Milling Company Limited	51	51
*Nkwazi Manufacturing Company Ltd	86	86
*Norgroup Plastics Limited	100	100
*Poultry Processing Company Ltd	60	60
Premium Oil Industries Limited	100	100
*Robin Hood Products Limited	100	100
ROP (1975) Limited	100	100

*Supa Baking Company Limited	100	100
*United Milling Company Limited	100	100
Zambezi Saw Mills (1968) Limited	100	100
*Zambia Breweries Limited	75	75
*Zambia Ceramics Limited	100	100
Zambia Maltings Limited	100	100
Zambia Coffee Company Limited	100	100
Zambia Oxygen Limited	100	100
Zambia Steel& Building Supplies Ltd	100	100
*Zambia Sugar Company Ltd	78	78
*KAWAMBWA TEA COMPANY LIMITED	100	100
*LUBLEND LIMITED	51	51
MAAMBA COLLIERIES LIMITED	100	100
METAL MARKETING CORPORATION OF ZAMBIA LTD	100	100
MemacoFarms Limited	100	100
Memaco Services Limited +	100	100
Memaco Trading Limited +	84	84
Memaco Trading Incorporated !	60	60
*MPONGWE DEVELOPMENT COMPANY LIMITED	60	60
*MPULUNGU HARBOUR CORPORATION LIMITED	100	100
NATIONAL AIRPORTS CORPORATION LIMITED	100	100
NATIONAL HOTELS DEVELOPMENT CORPORATION LIMITED	100	100
Eagle Travel Limited	100	100
Zambia Hotel Properties Limited	80	80
NATIONAL IMPORT AND EXPORT CORPORATION LIMITED	100	100
City Radio and Refrigeration Supplies (1995) Limited	100	100
Consumer Buying Corporation of Zambia Limited	100	100
*Mwaiseni Stores Limited	100	100
*National Drug Company Limited	100	100
NIEC Overseas Services (Zambia) Ltd	100	100
National Home Stores Limited	100	100
NIEC Agencies Limited	100	100
Zambia Horticultural Products Limited	100	100

Zambia National Wholesale & Marketing Company Limited	100	100
*Niec Farms Limited	100	100
NITROGEN CHEMICALS OF ZAMBIA LIMITED	100	100
*POSTS AND TELECOMMUNICATIONS CORPORATION LIMITED	100	100
*RESERVED MINERALS CORPORATION LIMITED	100	100
*Kagem Mining Limited	55	55
*Zambia Emeralds Industries Limited	100	100
Mindeco Small Mines Limited	100	100
TAZAMA PIPELINES LIMITED	67	67
*UNITED BUS COMPANY OF ZAMBIA LIMITED	100	100
ZAMBIA AIRWAYS CORPORATION LIMITED	100	100
Africa Bound Limited	100	100
National Air Charters Zambia Limited	100	100
*ZAMBIA CASHEW COMPANY LIMITED	51	51
*ZAMBIA COLD STORAGE CORPORATION CORPORATION LIMITED	100	100
ZAMBIA CONSOLIDATED COPPER MINES LIMITED	60.3	60.3
*Copper Industry Services Bureau Ltd	60.3	60.3
*Mines Air Services Limited	60.3	60.3
*Mulungushi Investments Limited	60.3	60.3
*ZAL Holdings Limited	60.3	60.3
*Zambia Procurement Services (Private) Limited	60.3	60.3
*ZAMBIA ELECTRICITY SUPPLY CORPORATION LTD	100	100
*ZAMBIA ENGINEERING & CONTRACTING COMPANY LTD	65	65
*ZAMBIA FORESTRY AND FOREST INDUSTRIES CORPORATION LIMITED	100	100
ZAMBIA NATIONAL COMMERCIAL BANK LIMITED	98.8	98.8
*ZAMBIA NATIONAL INSURANCE BROKERS LTD	85	85
*ZAMBIA NATIONAL SHIPPING COMPANY LIMITED	78	78
ZAMBIA RAILWAYS LIMITED	100	100

Zambia Concrete Limited	100	100
*THE ZAMBIA STATE INSURANCE CORP. LTD	100	100
*Auto Care Limited	75	75
Avondale Housing Project Limited	100	100
*ZIMCO PROPERTIES LIMITED	100	100

(b) Associate Companies

AGIP (ZAMBIA) Limited	50	50
DUNCAN GILBEY & MATHESON (ZAMBIA) LTD	49.7	49.7
*DUNLOP ZAMBIA LIMITED	23	23
*INDO-ZAMBIA BANK LIMITED	40	40
LIVINGSTONE MOTOR ASSEMBLERS LIMITED	35	35
ZAMBIA SEED COMPANY LIMITED	40	40

Companies marked * are not audited by Coopers & Lybrand.
Companies marked + are incorporated in England
Companies marked @ are incorporated in Zimbabwe
Companies marked ! are incorporated in the United States of America

Zambia Privatisation Agency
Divestiture Sequence Plan

1992		**Tranche 1**
1	S	AFE Limited
2	S	Crushed Stone Sales Limited
3	S	Consolidated Tyre Services Limited
4	S	Eagle Travel Limited
5	S	Mwinilunga Canneries Limited
6	S	Nkwazi Manufacturing Company Limited
7	S	Poultry Processing Company Limited
8	S	Zambia Clay Industries Limited
9	S	Auto Care Limited
10	S	Cleanwell Dry Clearners
11	S	Coolwell Systems
12	S	General Pharmaceutical
13	S	Monarch Zambia Limited
14	S	National Drum & Can Company Limited
15	S	Norgroup Plastics Limited
16	S	Prime Marble Products
17	S	Zambia Maltings Limited
18	S	Zambia Ceramics Limited
19	S	Zuva Zambia Limited
1993		**Tranche 2**
		Agriculture/Agro-Industry
20G#	S	Antelope Milling
21G#	S	Jamas Milling
22G#	S	Olympic Milling
23G#	S	Chimanga Changa Milling
24G#	S	Kabwe Milling
25		Chico Milling
26G	M	Amalgamated Milling Company Limited
27	M	Mpongwe Development Company Limited
28G	L	National Milling Company Limited
29	L	The Zambia Sugar Company Limited
30	M	Nanga Farms Limited
31G	L	Zambia Breweries Limited
32G	M	National Breweries Limited

33	S	Zambia Cashew Company Limited Construction
34N	L	Chilanga Cement Limited
35G	M	Zambia Engineering & Contracting Company Limited Chemicals
36	L	Kafironda Limited Packaging
37	S	Kapiri Glass Products Limited Tourism
38	L	Zambia Hotel Properties Limited Engineering
39	M	Lusaka Engineering Company Limited (LENCO)
40	l	Metal Fabricators of Zambia Limited Agriculture/Agro-Industry
41	M	Zambia Horticultural Products Limited
42#	?	Lint Company of Zambia Limited
43#	?	National Tobacco Company Limited
44#		Dairy Produce Board
45	M	Zambia Cold Storage Corporation Limited
46	?	LIDCO
47G	M	Indeco Milling Limited
48G	M	United Milling Limited
49G	M	ROP Limited
50G	M	Zambia Agriculture Development Limited
51G	M	Premium Oil Industries Limited
		Tranche 3
		Agriculture/Agro-Industry
52	M	Supa Baking Company Limited Manufacturing
53G	L	Kafue Textiles (Z) Limited Trading
54	L	Consumer Buying Corporation of Zambia Limited
55	L	Zambia National wholesale and Marketing Company Limited
		Tranche 4
56	L	Nchanga Farms
57	S	NIEC Farms Limited
58N	S	Zambesi Sawmills (1968) Limited
		Construction
59	S	NIL Construction
		Energy
60	S	Lublend Limited
		Engineering
61	S	ZAL Elevators
		Finance
62	L	Zambia National Commercial Bank Limited (ZNCB)
		Trading
63	L	National Home Stores Limited
		Tourism
64	S	Africa Bound Limited

65	S	Lake Hotels Limited
		Transport
66	S	Mulungushi Traveller
		Tranche 5
		Agriculture/Agro-Industry
67	S	Kawambwa Tea Company Limited
68	S	MEMACO farms
		Chemicals
69	S	National Drug Company Limited
		Construction
70	S	Buildwell Construction Limited
71	M	Mpelembe Properties Limited
72	M	Zambia Steel and Building Supplies Limited
		Engineering
73	S	MIL Engineering and Tooling Limited
		Packaging
74	M	Kabwe Industrial Fabrics Limited
		Tourism
75	S	Mundawanga Zoo & Botanical Gardens
76	L	National Hotels Development Corporation Limited
		Trading
77	M	Mwaiseni Stores Limited
78	S	Redirection Placement Limited
		Transport
79	S	Lusaka Urban Rail Transport
		Tranche 6
		Agriculture/Agro-Industry
80	S	Zambia Coffee Company Limited
81	M	Zambia Seed Company Limited
		Finance
82	S	Africa Intercontinental Insurance Services Ltd
83#	?	Development Bank if Zambia Limited
84#	?	Export and Import Bank of Zambia Limited
85	S	State Insurance Medical Trust Limited
86	L	Zambia State Insurance Corporation Limited
87	L	Zambia State Insurance Corporation Limited#
88	S	Zambia State Financing Company Limited
89	S	Zambia State Property Development Company Limited
90	S	Zambia State Security Limited
		Transport
91	L	Contract Haulage Limited

92	L	United Bus Company of Zambia Limited
93	S	Mpulungu Harbour Corporation Limited
		Mining
94	S	Mindeco Small Mines Limited
		Tranche 7
		Chemicals
95	M	Zambia Oxygen Limited
		Mining
96	S	Kagem Mining
97	S	Kariba Minerals Limited
98	S	Kariba Amethyst Marketing Limited
99	L	Reserved Minerals Corporation Limited Group
100	S	Zambia Emerald Industries Limited
		Trading
101	S	City Radio & Refrigeration Supplies (1975) Limited
		Transport
102	S	Intercontinental Travel Limited
103	S	Luangwa Industries Limited
		Tranche 8
104	S	MIL Sawmilling and Joinery Limited
105N	L	Zambia Forestry and Forest Industries Limited (ZAFFICO)
106	M	Indo-Zambia Bank Limited
		Manufacturing
107	S	Mansa Batteries Limited
		Trading
108	S	NIEC Agencies Limited
		Transport
109	M	Dunlop Zambia Limited
110	S	Mines Air Services Limited
111	S	Rycus Heavy Haulage Limited
		Tranche 9
		Agriculture/Agro-Industry
112	L	Nitrogen Chemicals of Zambia Limited
113	S	Duncan Gilbey & Matheson
		Finance
114	S	Zambia National Insurance Brokers Limited
		Mining
115	L	Maamba Collieries Limited

		Real Estate
		Anros Industries Limited
		Tourism
117	S	Circuit Salaris Limited
		Transport
118	S	Livingstone Motor Assemblers Limited
119	L	National Airports Corporation
120	S	Zamcargo Zambia Limited
		Tranche 10
121	S	Zimco Properties Limited
		Energy
122	L	BP Zambia Limited
123	S	Zamlube Re-refiners Limited
		Real Estate
124	S	Indeco Estate Development Company Limited
		Trading
125	S	NIEC Overseas Services Zambia Limited
		Transport
126	S	Engineering Services Corporation Limited
		Tranche 11
		Communications
127	M	Zambia National Broadcasting Corporation
		Energy
128	M	AGIP (Zambia) Limited
		Finance
129	S	Zambia Housing Development Fund Limited
		Mining
130	L	MEMACO Group
131	L	MEMACO Trading Limited, London
132	S	MEMACO Trading Limited, USA
133	S	MEMACO Services Limited
		Transport
134	L	Zambia Airways Corporation Limited
135	M	National Air Charters (Zambia) Limited
136	S	Zambia National Shipping Company Limited
137	S	Zambia Concrete Limited

State-owned enterprises scheduled for privatisation

The timing for the privatisation of these companies is still to be determined:

138	-	Zambia Consolidated Copper Mines
139	-	Indeni Petroleum Refinery Company
140	-	Tazama Pipelines
141	-	Zimoil Division
142	-	Posts and Telecommunications Corporation
143	-	Zambia Electricity Supply Corporation
144	-	Zambia Railways

Key

Company not part of ZIMCO group
G Privatisation Study to be funded through GTZ
N Privatisation Study to be funded through NORAD
L Large company
M Medium-sized company
S Small company

17

PRIVATISATION AND COMMERCIALISATION IN NIGERIA

H.R. Zayyad

Introduction

Today, we are witness to sweeping changes that are taking place in the economies of both developed and developing countries. These changes relate to efforts to move away from government ownership, control or participation in the economy towards free enterprise and increased operation of market forces. On the whole, the changes are making for a reduction in the role of government in the economy, with a corresponding expansion in private sector ownership, control and participation. We are thus observers of the evolution of a New World Economic Order which is characterised by the liberalisation or deregulation of economic activities, with the aim of achieving efficiency and effectiveness in resource allocation and utilisation. The economic reforms of the New World Economic Order are being implemented in more than 70 countries around the world, including the USSR, China, Vietnam and Eastern Europe countries where such reforms were virtually unthinkable less than a decade ago.

The Development of the Public Sector and Public Enterprise Reform in Nigeria

Since independence in 1960 (and especially during the 1970s), Nigeria, like most developing countries, developed a particularly large parastatal sector. The parastatal sector is composed of such economic activities as banking and insurance; oil prospecting, exploration, refining and marketing; cement, paper and steel mills; hotels and tourism; sugar estates; etc. A survey undertaken by the Technical Committee on Privatisation and Commercialisation (TCPC) shows that there are nearly 600 public enterprises at the federal (national) level alone, and an estimated 900 at the state (regional) and local government levels. The estimated 1,500 public enterprises in Nigeria account for between 30 and 40 per cent of fixed capital investments and the same proportion of formal sector employment. Table 1 gives the summary of the Federal Government's investments as of 30 November, 1990. These investments were valued at over N.36 billion at their historical book values. The returns from these investments had never exceeded two per cent per annum,

which is less than 25 per cent of the annual subventions from the government to the public enterprise sector.

While the boom in the world market for oil and petroleum products lasted, no one complained about the wastes and inefficiencies of the public enterprise sector in Nigeria. In fact, a lot more public enterprises of questionable commercial financial viability were established. It was the fall in the world market for oil, and the economic recessions which began in the early 1980s that seriously focused attention on the problems of public enterprises. The report of a Study Group on Public Enterprises revealed that they were infested with problems such as:

- misuse of monopoly powers;
- defective capital structure, resulting in heavy dependence on the Government Treasury;
- bureaucratic red tape in their relations with supervising ministries;
- mis-management, corruption and nepotism.

Privatisation and Commercialisation in Nigeria

As government could no longer continue to support the monumental waste and inefficiency of the public enterprise sector, the programme of privatisation and commercialisation was developed to address the peculiar socio-economic and political conditions in Nigeria, being part of the Structural Adjustment Programme. The legal framework for the Nigerian programme is the Privatisation and Commercialisation Decree No. 25 of 1988, and the implementation agency is the Technical Committee on Privatisation and Commercialisation – an eleven-member body drawn from both the public and private sectors. It was vested with wide powers to monitor and supervise the implementation of the programme. The full functions of the Technical Committee are to:

- advise on the capital restructuring needs of enterprises to be privatised or commercialised under this Decree in order to ensure a good reception in the Stock Exchange Market for those to be privatised, as well as to facilitate good management and independent access to the capital market;
- carry out all activities required for the successful public issues of shares of the enterprises to be privatised including the appointment of issuing houses, stockbrokers, solicitors, trustees, accountants and other experts to the issues;

- approach, through the appointed issuing houses, the Securities and Exchange Commission for a fair price for each issue;

- advise the Federal Military Government, after consultation with the Securities and Exchange Commission and the Nigeria Stock Exchange, on the allotment pattern for the sale of the shares of the enterprises concerned in accordance with Section 7 of this Decree;

- oversee the actual sale of shares of the enterprises concerned by the issuing houses in accordance with the guidelines approved by the Federal Military Government;

- submit to the Federal Military Government from time to time, for the purpose of approval, proposals on sale of government shares in such designated enterprises, with a view to ensuring a fair price and even spread in the ownership of the shares;

- ensure the success of the privatisation and commercialisation exercise taking into account the need for balanced and meaningful participation by Nigerians and foreign interests in accordance with the relevant laws of Nigeria;

- ensure the updating of the accounts of all commercialised enterprises with a view to assuring financial discipline;

- perform such other functions as may be assigned to it from time to time, by the President, Commander-in-Chief of the Armed Forces;

- advise the mode of disposal of an enterprise viewed by the Technical Committee as being unsuitable for disposal by the public issue of shares;

- seek and obtain the prior approval of the Federal Military Government for the price of any share issue in respect of any designated enterprise and the pattern of its allotment.

Objectives of the Privatisation and Commercialisation Programme

The objectives of the privatisation and commercialisation programme are:

(i) to restructure and rationalise the public sector in order to lessen the dominance of unproductive investments in that sector;

(ii) to encourage share ownership by Nigerians in productive investment hitherto owned wholly or partially by the Government, and in the process to broaden the Nigeria Capital Market;

(iii) to re-orientate the enterprises for privatisation and commercialisation towards a new horizon of performance improvement, viability and overall efficiency;

(iv) to ensure positive returns on public sector investments in commercialised enterprises;

(v) to check the present absolute dependence of commercially oriented parastatals on the Treasury for funding and to encourage their approach to the Nigerian Capital Market;

(vi) to initiate the process of gradual cession to the private sector of such public enterprises that by the nature of their operations and other socio-economic factors are best performed by the private sector;

(vii) to create a favourable investment climate for both local and foreign investors;

(viii) to provide institutional arrangements and operational guidelines that will ensure that the gains of privatisation and commercialisation are sustained in the future.

Distinction between Privatisation and Commercialisation

The term "privatisation", narrowly defined, means the transfer of government-owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate bodies. Broadly defined, privatisation is an umbrella term to describe a variety of policies which encourage competition and emphasise the role of market forces in place of statutory restrictions and monopoly powers.

The first definition relates to programmes of privatisation without structural adjustment, such as has been the case in most developed countries, e.g. U.K., France, etc. The second definition relates to a programme of privatisation as an integral part of a Structural Adjustment Programme, such as we have in Nigeria.

Commercialisation, on the other hand, can be defined as the re-organisation of enterprises, wholly and partially owned by the Government, in which such commercialised enterprises shall operate as profit-making commercial ventures

without subvention from the Government. The main thrust of the Nigerian commercialisation programme has been to:

- provide enhanced operational autonomy at enterprise level;
- evolve a more results-oriented and accountable management, based on performance contracts;
- strengthen financial/accounting controls at the enterprise level;
- upgrade the management information system of the affected enterprises;
- ensure financial solvency of the public enterprises through effective cost recovery, cost control and prudent financial management;
- remove bureaucratic bottlenecks and political interference through clear role definitions between the supervising ministry, the board of directors and the management of public enterprises.

A critical component of the commercialisation programme, the performance contract is designed to govern the relationship between the government and the commercialised enterprise. Under it, the Board and management of the enterprises will guarantee the attainment of certain levels of financial and operational performance in return for enhanced operational autonomy. The system is intended to:

- help in giving a positive orientation and ensure that affected enterprises can efficiently fulfil their role in the national economy;
- identify a number of performance and efficiency indices which the affected enterprises should, as a minimum, achieve annually;
- provide an independent monitoring process through the TCPC (or its successor) whereby the actual performance by both parties of their obligations under the agreement can be effectively monitored and evaluated.

Privatisation in Nigeria

Two types of privatisation are implemented by TCPC; full and partial privitisation. Enterprises to be fully privatised are those which are already incorporated and which produce goods, and those which are more "private"

(consumptive) than "public" (essential) in nature. Such enterprises must show strong evidence of historical or future profits. Enterprises to be fully privatised would be owned 100 per cent by the private sector, i.e. by institutional, individual or core group investors, or a combination of such. Management decisions affecting the enterprises would derive from policy decisions reached by the boards constituted by the new owners. Government, having divested its entire equity holding, would have no hand in the running of the enterprises or in the decision-making affecting the enterprises, except in the provision of the general infrastructural and legal framework and the maintenance of a political and economic environment conducive to the operation of business. The fully privatised enterprises would be expected to source their funds from the capital market, from additional equity contributions or from reserves. Above all, they would be expected to pay reasonable dividends to the shareholders.

Enterprises to be partially privatised are those which the government consider strategic because of the greater "public" nature of their goods. Government would still exercise some influence over those industries to the extent of its representation on the board. It is hoped that under the new regime of privatisation, managers would be made accountable to the Board, even where government had substantial interest. Ministerial control, as was the case in the past, would be chased out, as boards would be expected to operate autonomously. Partially privatised enterprises would be expected to operate like the fully privatised enterprises in terms of accountability, management, profit motivation, expansion, and diversification of production.

Commercialisation in Nigeria

Enterprises to be commercialised would also be expected to be better managed and to make profit. However, unlike those to be privatised, no divestiture is involved, although it is hoped that commercialisation, except perhaps in the case of utilities. It is important to distinguish between fully commercialised enterprises from those to be partially commercialised. A fully commercialised enterprise would be expected to be self-sufficient in both its recurrent as well as its capital expenditure needs. All the eleven enterprises slate for full commercialisation under the Decree (with the possible exception of the Nigerian Coal Corporation) are capable of independent existence. Where their normal operations could not generate the level of resources needed for capital development, they should be capable of raising such funds from the Capital Market on the basis of the quality of their balance sheets.

Enterprises to be partially commercialised would be expected to operate like the fully commercialised ones in terms of better management and profit orientation, but because of the "public" nature of the goods or services provided by those

enterprises, and in order to keep the prices of their products or services as low as possible for the public goods, government would still provide financial grants for the capital projects of the partially commercialised enterprise. The enterprise would, however, be expected to earn enough revenue to cover their operating costs. In some cases, subventions could be allowed on a time-bound programme of withdrawal.

In both full and partial commercialisation, affected enterprises will enjoy considerable operational autonomy and, in accordance with the Decree, will have the power to operate on a strict commercial basis and, subject to the regulatory powers of government, be able to:

- fix rates, prices, and charges for the goods and services provided;
- capitalise assets;
- borrow money and issue debenture stocks; and
- sue and be sued in their corporate name.

The Scope of Nigeria's Privatisation and Commercialisation Programme

Government investment in Nigeria cut across all sectors of the national economy. The current privatisation exercise touches practically every industry at federal level, except defence. In all, a total of 110 enterprises will be privatised (either partially or wholly) with another 35 to be either partially or wholly commercialised as follows:

Methods of Privatisation

In the area of privatisation, the TCPC has so far evolved five methods as follows:

(i) *Public offer for sale of shares* of affected enterprises through the Nigerian Stock Exchange. To date, we have floated the shares of over 30 public enterprises. More enterprises are expected to be floated before the end of the current programme.

(ii) *Private placement of shares* of affected enterprises. We resorted to this method of privatisation in cases where government holding is so small that it cannot force public offer of shares even where the enterprises fulfil the listing requirements of the Stock Exchange. To date, only one enterprise has been so treated.

(iii) The third method is the *sale of assets* where the affected enterprise cannot be sold either by public offer of shares or by private placement of shares. Such enterprises have a poor track record and a future outlook which is hopeless. To date, a total of twenty-seven enterprises have been so treated, including the eighteen dealt with by the Ministry of Agriculture before the TCPC was established.

(iv) *Management Buy Out (MBO).* Under this method, the entire, or substantial part, of the enterprise is sold to the workers. It is entirely up to them to organise and manage it. To date, we have privatised only one enterprise this way.

(v) *Deferred Public Offer.* This is the fifth method of privatisation developed. It occurs in enterprises which are viable, but if sold by shares the value to be realised will be out of tune with the value of the underlying assets of the enterprise. To date, some five enterprises have been privatised this way and another three are likely to be so treated.

Our choice of public offer for sale as the predominant method of privatisation was informed by the need for wider share ownership, and the desire to extend the frontiers and depth of the Nigerian Capital Market. We recognise that there are advantages and disadvantages of using the Stock Exchange as a medium of disposal of the shares, particularly in a developing economy like that of Nigeria.

The major disadvantages are:

- In a society with a high level of illiteracy, the cumbersome formalities of prospectuses, a multiplicity of professionals, and complicated application

forms that are to be returned through the few, and sometimes unapproachable, banks and stockbrokers, can prove quite daunting, incomprehensible and therefore unattractive, not only to the illiterate, but also to a large section of the semi-literate population.

- There are also geo-political imbalances arising from unequal regional distribution of income, education and banking and stockbroking facilities. For example, out of the approximately 2,200 branches of banks and stockbroking companies in the country, as at 31 December 1988, nearly 300 branches were based in Lagos alone.

But the Stock Exchange medium also has numerous advantages, among which are the following:

- It enables us to reach a much larger audience, and provided a more objective allocative mechanism devoid of the rancorous suspicion of favouritism, more likely to occur in the sale of the shares under private placement.

- If properly published, it can create a large body of new shareholder class who have a vested interest in seeing that the enterprises are run profitably, and consequently higher accountability and a check on the management.

- It has deepened the Nigerian Stock Exchange and facilitated the development of Unit Trusts as a medium of investment for small holders, thereby creating democratic or popular capitalism.

- The Stock Exchange approach, when compared with asset-stripping or private placement, is much more creative, with the focus of all parties being to ensure that the enterprise is sold as a going concern.

The Journey So Far

In the three years since the implementation of the privatisation programme began, the Technical Committee on Privatisation (TCPC) has been able to complete privatisation work on 62 out of the 73 enterprises slated for full privatisation, and 22 out of the 25 enterprises slated for partial privatisation. On the commercialisation aspect of the programme, the number of public enterprises with whom Performance Agreements have been entered into stood at 22, as of mid-1992. So far, the exercise has generated (for the Government) over N1,6 billion as privatisation revenue, created over 600,000 new shareholders in the country, bridging both income and geo-political divides, radically changed the structure and

depth of the Nigerian Capital Market and created awareness of the virtue of share ownership as a form of savings. The programme has relieved the Federal Government of what was the huge and growing burden of financing debts and deficits of public enterprises. It has improved the allocative efficiency of the national economy, and enhanced the volume of corporate taxes accruing to the national treasury.

Problems Encountered

The relative success achieved in the programme implementation so far is not without problems of which the major ones are:

Bottlenecks in the system
Considerable delays have been experienced in the processing of application forms resulting in frustration for applicants who expect to return monies from one issue to finance purchases in subsequent issues. We realised to our dismay that the Registrar's Offices were ill-equipped to process the unexpectedly large volume of applications received. Steps have been taken to remedy this shortcoming by using the receiving agents to pay return monies and insisting on adherence to the offer timetable by all parties concerned.

Geo-political spread
Imbalances in shareholder distribution, geo-politically, is another major problem. Efforts are being made to broaden publicity and public enlightenment so as to ensure levels of participation (increase) in the most retarded areas.

Access to credit
Access to credit for a large body of interested persons has proved an intractable problem. Although licensed banks were advised by the Central Bank of Nigeria to extend credit to all interested persons, for operational reasons, the banking system has not responded favourably. This problem has tended to dampen enthusiasm, particularly amongst the working class whose earnings are hardly sufficient to meet their normal needs, let alone have surplus to invest. One reason for the bank attitude is that the system has gone through rather traumatic changes in recent years, and perhaps once the banks overcome the problems posed by the changes, the situation may improve. Employers of labour have been advised to assist the employees with share purchase loans and the response has been most encouraging.

Institutional investors

A considerable part of the over-subscription experience in the offers for sale arose from the intervention for large institutional investors who saw in privatisation an opportunity to broaden their investment portfolios. With emphasis being given to the small individual investors, such institutional investors are unable to obtain the quantities they require. Special effort is being made to persuade such investors to have faith in the programme, until such time as the really large offers are made, when everyone's demand will eventually be satisfied.

The social-political problems

There are some people who are opposed to privatisation, just as they are opposed to the whole Structural Adjustment Programme, on ideological grounds. To them, privatisation and SAP are impositions of international capitalism. They often dismiss the explanation that Nigeria had been looking for solutions to the problem of public sector investors long before the IMF and World Bank came on the scene. They also generally do not see much merit in the argument that the Nigerian Privatisation Programme is a home-grown solution, an imposition of the IMF and the World Bank. Since such views are more often than not deeply rooted in ideological opposition, it is not easy to dissuade those who express them, particularly as they are vocal and élitist. The primary argument for privatisation and commercialisation is, of course, that the efficiency and profitability of the investment will improve after the exercise. At the end of the day, it is the clear demonstration of such an improvement that will convince people who hold such views.

Antagonism by labour

A subset of the group who oppose privatisation on ideological grounds are those who believe that privatisation is anti-labour, as it will inevitably lead to massive retrenchment. The answer here is that this is not necessarily so. To the extent that the efficiency of the enterprise improves, the lot of labour will in fact improve. Moreover, the Nigerian TCPC Decree specifically provides that at least ten per cent of the shares being sold in each enterprise. But more significantly, with the exception of cases of outright liquidation, there have been no job losses.

Publicity and Public Enlightenment

The need for creating public awareness of the privatisation programme was recognised very early in the day. Such awareness is necessary not only to dispel certain misconceptions and fears about the programme but also to:

- explain, in as simple a way as possible, the technicalities of investment via the stock exchange, to a populace, the largest majority of whom are unfamiliar with such technicalities; and

- maintain the immense public interest generated by this intensely political as well as economic programme, by explaining the details to people in all corners of the country.

We identify the radio as the most effective medium of reaching the masses, although use was made of newspapers, television, seminars, conferences, workshops, etc.

Conclusion

The programme of privatisation and commercialisation is a major opportunity for the reform of Nigeria's ailing public enterprises and to prepare them to serve the needs of the Nigerian economy in the 21st century. Enterprise will be made more efficient, more accountable and more responsible to the needs of the clientele it is meant to be serving - the Nigerian public. The Nigerian private sector will also benefit tremendously in the creation of new investment opportunities and a better investment climate. A lot of new shareholders have been created and now have a say in the affairs of the organised private sector. The performance of the Nigerian Capital Market will be enhanced greatly, as well the growth potential of the Nigerian economy. But, what lessons are there for African and Third World countries undertaking similar programmes?

First, economic reform is indeed a global phenomenon. Similar kinds of market-oriented policies are appearing across a very diverse collection of countries. Second, the importance of adapting to the new conditions is unique. No two national economic reform programmes are identical. The pace and instruments of reform reflect basic political, social and economic differences between countries. Third, programmes of economic reforms require a judicious mix of technical, institutional and political innovations if they are to succeed. Fourth, the support of the highest political authority is an essential ingredient of success. Fifth, the process of reform is a long-term process and not one which can be done in one swoop.

Sixth, the most important challenge is to sustain the process. To this end, an implementation agency which has no vested interest in maintaining the status quo should be established, and its leader must have direct access to the highest political

authority. The organisation and staff of the implementation agency must emphasise merit. Seventh, transparency should be a major element in privatisation programme. Each affected enterprise must be studied in great detail to ensure the maximum benefit in the divestiture. Eighth, conditions permitting, mass participation should be encouraged by public offers through the Stock Exchange, avoiding quiet selling. Ninth, the general public should be kept informed of what is happening at every stage in the implementation programme.

Our experience in Nigeria points to the fact that it is difficult, if not impossible, for the Government in a developing country to divest its interest in enterprises completely. In many African countries, the institutional infrastructures for viable divestiture do not exist. Furthermore, local capital with which to facilitate implementation of divestiture is not available. Therefore it would seem that the viable option for most African countries is to subject a substantial part of the public enterprise sector to reforms that will help them achieve management and productive efficiency. This should be a prelude to divestiture. The reform of public enterprise must emphasise less interference from government ministers with a corresponding high measure of autonomy for public enterprise are adequately capitalised, and especially that they have access to the financial market for working capital. It is necessary to provide adequate incentives to employees in order to stimulate higher productivity, and operational procedure such as pricing, recruitment, capital acquisition, etc. should be made to conform with those in the private sector.

18

UGANDA'S PRIVATISATION STRATEGY: A DIAGNOSIS

William Okecho

The Policy Statement of PE Reform and Divestiture

As part of the country's Economic Recovery Programme launched in 1987, Uganda has been preparing to privatise some of her public enterprises (PEs). The Government has produced a Policy Statement on PE Reform and Divestiture (see Uganda Gazette November 1st, 1991) which outlines the country's privatisation strategy. It is the responsibility of the Public Enterprises Reform and Divestiture Secretariat within the Ministry of Finance and Economic Planning, to implement this strategy. The strategy elements and its support programmes are highlighted below against the background of appropriate strategy structure, effective privatisation strategy characteristics and implementation constraints.

Uganda's Privatisation Strategy vs Appropriate Strategy Structure

As already stated above, an appropriate strategy must have three structural elements: a statement of objectives to be achieved, a programme of action, and a commitment of resources to implement the action programme.

Uganda's privatisation strategy has two basic objectives which are fundamentally internal to the country. These are:

- to reduce the direct role of government in the economy; and
- to develop a correspondingly greater role for the private sector.

These objectives were considered imperative because:

- the Government wanted to reduce the financial and administrative burden upon it on account of:

  (i) the large number of PEs within its portfolio – there are 156 PEs of which 133 are commercial, 20 of these are lying dormant and

others are incapacitated due to the widespread destruction of building, equipment and records as a result of previous political conflicts, and the unresolved nature of ownership issues;

(ii) the financial losses and poor performance of the PEs in general – many are characterised by large operating losses, low capacity utilisation, low productivity and increasing illiquidity.

- the Government wanted to increase private sector participation in the economy on account of:

  (i) the presently large informal sector;

  (ii) the need to get the private sector to participate in future purchase of the privatised PEs;

  (iii) the need to improve entrepreneurship in the country and ensure uninterrupted performance of the privatised PEs.

These objectives are esoteric to Uganda and form the basis of the aspirations of the Ugandan people in the privatisation undertaking.

To ensure successful attainment of the above objectives, a detailed analysis of Uganda's resource capability was carried out as part of the privatisation strategy formulation. It was apparent from the analysis that:

- For the enterprises to be sold at good price and to perform better after sale, some restructuring and rehabilitation would be required and this would need money, especially foreign exchange, which was not readily available in the banking system and the country.

- There was no appropriate organisation or legal framework to shoulder the complicated exercise of privatisation and these would have to be created.

- The country did not have skilled manpower to undertake the various tasks that go with privatisation, e.g. financial analysis, accounting, economic analysis, legal work, general management, etc; and this would have to be secured, either by importing foreign specialists or by training the presently available manpower.

As part of the privatisation strategy therefore, the acquisition and deployment of the necessary resources to implement privatisation was planned. In this connection, it was decided to:

- recruit key technical staff to provide the necessary institutional advisory services and logistical support and to assist individual PEs to improve performance;

- establish the agency and an organisation structure to implement privatisation; i.e. the PE Reform and Divestiture Secretariat and the structure within;

- borrow additional funds from the World Bank to finance various aspects of the privatisation programme. Some $65.6 million has been made available by the World Bank under a loan agreement already negotiated and approved.

Further in the privatisation strategy formulation, the opportunities and strengths at the country's disposal to undertake privatisation were kept in view while at the same time the threats and weaknesses that might constrain accomplishment of the privatisation task were noted. In this characteristic SWOT analysis, it has been realised that the country's main strengths and opportunities include:

- the massive political goodwill and present realistic government;

- the failure of most PEs to live up to the expectations of most Ugandans as far as their performance is concerned;

- the presence of a strong culture of entrepreneurship and desire for private ownership;

- a relatively large educated middle-class, able and willing to be trained and acquire the many skills necessary to undertake privatisation;

- a realistic trade union movement in the country.

However, it was also found out that the weakness in undertaking privatisation and threats to success are significant.

These include:

- a large number of debt-ridden and non-performing PEs that may not be attractive to potential buyers;

- shortage of private Ugandan equity funds due to absence of capital market, low disposable income and savings, and limited liquidity in the undeveloped banking sector;

- shortage of foreign exchange in the economy to finance PE rehabilitation to improve value;

- many ownership and legal issues surrounding most PEs;

- lack of proper accounting records and standards, sparking the need to engage financial experts not readily available in the country, thereby delaying PE preparation for sale.

In view of the above strengths, weaknesses, opportunities, and threats, an action programme has been incorporated in the privatisation strategy framework which includes:

- A classification of all the PEs with a view to reduce the size of the PE sector. In this regard, the Government adopted a set of criteria to classify all commercially oriented PEs into those which will remain in state hands with entire, majority or minority shareholding by government, those which will be privatised, and those which will liquidated.

- The definition of a programme for the first five-year action which includes divestiture of 50 PEs in the first phase, to commence this year. This is to spread out the immense implementation effort so as not to overburden the limited resources.

- A definition of the policies to facilitate divestiture. The policies are to improve the investment climate, ensure sustained investor interest, and bring optimal economic benefits to the country.

As is evident, the action programme is designed to reduce the impact of the weaknesses and threats while exploiting the strengths and opportunities at the country's disposal.

From the above analysis, the accepted guidelines in formulating a privatisation strategy have been closely followed. The three key procedures, which are establishing objectives, committing resources, and planning of action programmes, are incorporated in the privatisation strategy framework.

Uganda's Privatisation Strategy vs Effective Privatisation Strategy Characteristics

It can be recalled that an effective privatisation strategy must have the following characteristics:

- It must have mutually consistent goals and policies which are clear and transparent to all.
- It must respond to the country's environment and be compatible with it, indicating relationships with other on-going policy initiatives.
- It must be feasible within the resource capabilities of the country.
- It must create more opportunities for the country and avail greater competitive advantage.
- It should be comprehensive in all aspects.
- It must have a mechanism for implementation.

As far as attaining internal consistency between the goals (objectives) and policies is concerned, it has to be recalled that the country's goals for privatisation are:

(i) to reduce the role of government in the economy; and

(ii) to develop a greater role for the private sector.

The policies to be pursued to realise these goals, as outlined in the strategy framework, include:

- selecting PEs for divestiture which are attractive investments to the private sector;
- ensuring that the new owners have access to term finance for rehabilitation of the acquired PE and that they have autonomy to manage the operations on fully commercial lines;
- freely permitting funds held abroad by Ugandans to be used for acquiring equity in divested PEs;
- generating interest by commercial banks in providing credit for purchase and rehabilitation of PEs.

These polices are further geared towards improving credit, the investment climate, and ensuring private investors' interest in purchasing equity in the PEs. They are appropriate polices in Uganda's context where every effort has to be made to attract private investors in view of the lack of investment capital, unavailability of institutional investors, and where the major surplus income is invested in the more lucrative trading activities and real estate.

Uganda's privatisation programme is one policy agenda in the overall Economic Recovery Programme. Privatisation is not being pursued in isolation, and pragmatism plus expediency are the main motives behind it, as elaborated in Section 3.2 above. It takes into account and is assisted by such other policy initiatives like the Structural Adjustment Programme, the Civil Service Reform, Tax Reforms and investment promotion measures, such as the enactment of The Investment Code 1991. In this context therefore, the strategy meets the characteristic of being responsive to and compatible with the country's environment.

Furthermore, to ensure that the privatisation strategy is feasible within the resource capabilities of Uganda, the strategy included within its framework the acquisition of additional finance, notably from the World Bank. The strategy also incorporates an action programme which ensured phased implementation starting with 50 PEs to be privatised in the first five years so as not to overburden the limited resources available. Uganda's privatisation strategy has therefore tried to take into account the country's resource capability.

Uganda's privatisation policy explicitly states that the country's privatisation strategy is designed to ensure optimal economic benefits to Uganda. This is in direct consonance with the characteristic that an effective privatisation strategy must create more opportunities for the country and avail it greater competitive advantage. In this context, Uganda's privatisation strategy includes the provisions that:

- the valuation of PEs for sale will be based on market value rather than book value as most - especially industrial - PEs have obsolete machinery with zero book value but are still operational and command a price;

- no undue advantage or protection will be offered to investors at the detriment of the country's (national) interest;

- the Government will consider foreign investment where there is need for external equity, management and technology to acquire competitive advantage, especially in export-oriented PEs;

- all legal issues will be addressed before putting up any PE for sale so that

neither the Government nor the investor is disadvantaged.

The above provisions, coupled with the strategy of flexibility in the implementation of privatisation policies, go a long way to ensure that Uganda achieves competitive advantage and acquires more opportunities through privatisation.

Judged against the characteristic that privatisation strategy must be comprehensive, thereby indicating/highlighting macro implications, expected gains, options available, privatisation candidate selection criteria, results evaluation, and political dimensions and commitments, Uganda's privatisation strategy states that "Government will undertake an annual review of the divestiture programme and its policies and modalities"; this review will ensure attainment of such comprehensiveness. The strategy specifically has a comprehensive outline of the criteria for selecting candidates for privatisation. The basic principles in this regard are that:

- PEs that are unviable should not operate and cause more economic damage to the country, rather they should be liquidated;

- the Government should not operate any commercially oriented PE unless:

  (i) it is security (politically) sensitive, or

  (ii) it provides essential services;

  (iii) all other PEs are privatised, in whole or in part;

- the Government will take minority shareholding only in few enterprises where high cost projects will attract private equity and technology if, and only if, government were to take up equity holdings. All other new enterprises, except those falling in class (b) above, should be privatised.

Applying these criteria, all commercially oriented PEs (excluding banks) are to be grouped into five target classes and 112 PEs have already been classified accordingly, as shown in the table below:

CLASSIFICATION OF PEs

Class	Shareholding	Number of PEs
I	100%	16
II	Majority	24
III	Minority	10
IV	Nil (Fully Divest)	46
V	Nil (Liquidate)	16
		Total 112

The privatisation strategy has a comprehensive coverage of the implementation mechanism. As already indicated, the strategy incorporates a time-bound action programme (the five-year action plan), and advocates the creation of a high level body, the Divestiture Implementation Committee and the Policy Review Working Group to determine and review the privatisation policy. The strategy also recommends the creation of a privatisation agency, the Public Enterprise Reform & Divestiture Secretariat, and defines its powers and those of the key positions within its structure. The strategy leaves open the possible methods for disposal and ownership of the privatised shares; this is to be determined on a case by case basis.

As is evident from the above analysis, Uganda's privatisation strategy generally equates to the most demanding characteristics of an effective privatisation strategy.

Uganda's Privatisation Strategy vs Privatisation Strategy Implementation Constraints

Strategy implementation is the final test of the effectiveness of any strategy. Successful strategy implementation is a manifestation of sound strategy formulation. However, as stated above, one has to guard against certain general factors that may hinder successful implementation of any strategy.

In privatisation strategy implementation, there are, in addition, country-specific situations that could hinder successful implementation of a country's privatisation programme. Therefore, an effective privatisation strategy, apart from depicting the already outlined characteristics of effectiveness, should also incorporate

mechanisms for neutralising these situations. Uganda's privatisation strategy can therefore be evaluated as to how best it can handle such situations to guarantee its successful implementation.

The common country-specific situations (constraining factors) include:

(a) lack of liquid capital to purchase equity in the privatised PEs;
(b) absence of basic economic policy features necessary to facilitate privatisation;
(c) poor financial and material conditions of PEs;
(d) scarce domestic managerial and technical skills;
(e) lack of entrepreneurs, and investors' reluctance to invest in equity in privatised PEs rather than in high yield trading and real estate ventures;
(f) thin medium- and large-scale private sectors.
(g) thin, scattered and uneven political support for privatisation;
(h) strong resistance by the state political and administrative cadre;
(i) previously strong reasons for PEs' original creation.

In Uganda, concerted efforts have been made at national level to counter the effects of these factors and to create an enabling environment for privatisation. Some of the measures are incorporated in the country's privatisation strategy.

A lack of liquid capital to purchase equity in the privatised PEs is a situation existing in many developing countries. It is usually as a result of low disposable incomes, an undeveloped banking sector, non-existent capital markets to marshal the little savings available, etc. In Uganda, efforts are under way to create a capital market, the Kampala Stock Exchange, and the privatisation strategy has as one of its objectives "to generate interest by commercial banks to provide credit for the purchase of PEs". The country has also enacted The Investment Code 1991 to help attract foreign investment and stimulate local investment.

Privatisation in Uganda is being pursued as part of a comprehensive economic recovery package. Uganda has therefore several other economic policy measures which will assist in privatisation. These include the liberalisation of the foreign exchange market which permitted the establishment of foreign exchange bureaux, thereby permitting funds held abroad by Ugandans to be brought into the country, as provided for in the strategy framework. Other measures include the on-going infrastructure rehabilitation to stimulate marketing; trade liberalisation measures in the area of major exports; and the enactment of the Investment Code already referred to above.

Under the umbrella of the Enterprise Development Project, which incorporates the privatisation programme, the Government has embarked on a programme to improve the financial and material conditions of the PEs. Under this programme,

the excessive debt situation plus foreign exchange and capital shortage in the PEs will be addressed. These moves are intended to improve PE attractiveness to potential buyers to facilitate the privatisation process. In this regard, the privatisation strategy has a provision to ensure that the new owners continue to have access to term finance for the rehabilitation of the PEs.

The scarcity of domestic managerial and technical skills to undertake privatisation activities has been fully addressed in the privatisation strategy framework. Provisions have been made to recruit and train the available manpower and to hire expert technical assistance from outside. Funds for this are to be procured from the World Bank as part of the total credit arrangement.

Regarding the scarcity of local entrepreneurs and the possible reluctance of the available investors to invest in low yielding equity in privatised firms, preferring instead to invest in high yielding real estate and trade, Uganda has taken note. The strategy underscores the need for the Government to attract investors by creating a suitable investment climate. This is already being done, for example, by enacting the Investment Code. The strategy further has measures to ensure investor interest in divestiture, which include selecting such PEs for divestiture as are attractive investments (good profit potential), and improving the financial plus operational attractiveness of the PEs as already explained.

The lack of robust medium-scale and large-scale private sectors with potential to take up privatised PEs has been addressed during the privatisation strategy formulation. To counter this situation, the strategy provides for the development of the private sector as a deliberate overall objective of the entire privatisation programme in Uganda. All policy measures recommended, instituted and taken so far, are aimed at creating robust private sector. Separate attempts are also being made by the Government to encourage institutional investment by such bodies as the insurance companies, the National Social Security Fund and banks.

Uganda's privatisation programme has received substantial political support. However, it is further planned to introduce the Public Enterprise Reform and Divestiture bill for debate in Parliament. The policy statement on privatisation has also been published in the media for public information and to stimulate constructive debate. The formulation and issuance of this statement has been a deliberate part of the Government's privatisation strategy.

The widespread failure of the PEs to perform to the expectations of the majority of Ugandans and the heavy administrative burden they have exerted on government administrative machinery have considerably eroded the usual tendency of the state political and administration cadre to resist privatisation of PEs. Further the political and administrative cadre have all along been involved in the privatisation policy and strategy formulation and implementation process through established

institutional framework so they themselves have become change agents. The institutional framework includes:

- Divestiture Implementation Committee;
- Policy Review Working Group;
- Enterprise Development Project Implementation Team;
- Public Enterprise Reform & Divestiture Secretariat.

So far attempts by these groups to resist privatisation have been minimal.

The major reasons for original creation of PEs in Uganda include the following:

- the inability of the private sector to undertake certain large investments which were essential to the economy;
- the need to maintain control over strategic sectors;
- political and ideological considerations which led to the takeover of the private companies;
- the need for the promotion and development of indigenous entrepreneurs.

Most of the above reasons are still valid and the privatisation strategy has noted this fact and made appropriate provisions to accommodate them. In the selection of PEs to be privatised, for example, the classification of PEs is based on wide criteria already outlined that take into account most of these reasons. There are also deliberate policies in the strategy framework which are aimed at the development of indigenous entrepreneurs as already outlined above. This realisation goes a long way towards neutralising the impact of the old reasons for the creation of PEs.

In summary, it is apparent that Uganda has taken into consideration most of the factors that usually hinder countries from successfully implementing their privatisation strategies. She has incorporated various measures and support programmes into her privatisation strategy framework that should ensure an uninterrupted implementation. Uganda is considered as one of the few developing countries that has meticulously planned its privatisation programme and failures are least expected.

19

PARASTATAL SECTOR REFORM AND PRIVATISATION IN TANZANIA

George Mbowe

Introduction

A dramatic change has taken place in Tanzania since the mid-1980s. It is observed that the cumulative process of the country's reform measures has resulted in an economy that now largely relies on market signals for pricing and allocative decisions. The reform process started gradually in 1985 by introducing several measures in the trade, pricing and exchange rate. The introduction of these measures has meant a departure from the centralised system of controls, including its administrative allocation machinery. While it is recognised that the shift in the policy of economic management has made a positive contribution to the turn-around in economic performance over the last five years in Tanzania, the pace of change cannot be sustained without taking positive action in redressing the deteriorated physical and social infrastructure and improving institutional performance in the country as a whole. Massive development in the economy cannot take place without putting emphasis on capacity building in all institutions involved in the process of change with growth.

It is evidenced by the prevailing situation in Tanzania that recognition has been given by the Government and the Party to the importance of carrying out all the reforms that have been recommended in the Economic and Structural Adjustment Programme. Implementation of the necessary structural and institutional transformation has begun in Tanzania and it covers areas such as infrastructure, particularly the rehabilitation of the trunk roads, the financial sector and agricultural marketing. Initial steps have been taken in other areas, such as the social sectors and public sector management. The focus of the development strategy in the coming years is to create an efficient, well functioning and rapidly growing economy.

Current Status of the Reform Programme

In a government pronouncement relating to the parastatal reform in Tanzania, the Minister of Finance summarised the impending reforms to include the following:

(a) the phasing out of government subsidies;

(b) complete and partial privatisation of public sector holdings; and

(c) liquidation of unprofitable entities.

The basic objectives of the envisaged parastatal reform are to:

- improve both the operational efficiency of enterprises that are currently in the parastatal sector and their contributions to the national economy;
- reduce the burden of loss-making parastatal enterprises on the government budget;
- expand the role of the private sector in the economy, permitting the government to concentrate public resources on its role as provider of basic services, such as health, education, and social and economic infrastructure; and
- increase and encourage a wider participation of the people in the running and management of the economy.

The foregoing objectives are all intended to encourage the private sector to play a major role in the future development of the country through promotion or attraction of new investments from within and without and also revitalising management of the parastatal sector.

The key emphasis in the Minister's policy statement in implementing the reform of the parastatal sector is attainment of improved operational efficiency in the particular sectors and the economy as a whole; reduction of dependence on Treasury rescue-funding and expansion of the private sector role in the national economy so as to allow more time and other resources to concentrate on providing an enabling business environment. It is discernible from the foregoing policy statement that a choice has been made for trade liberalisation and departure from the centralised system of administrative controls as a first step towards privatisation and commercialisation of the public sector.

Gradual or Swift

The question in Tanzania that has to be tackled in the immediate future is how to privatise rather than what to privatise. Another related issue is the speed at which such privatisation should operate. The determination of these two issues is highly influenced by the immediate political and economic history of Tanzania. There will

be some difficult decisions to be made. But in order to provide an environment that would be conducive to change or that would improve efficiency of the productive sector as a whole, through its economic recovery programme, the Government continues to implement its reforms in the areas of foreign exchange, regulation and revision of business laws.

These reforms are necessary in order to help both private and parastatal enterprises to operate profitably and in the national interest. It is recognised that the Government's intentions in taking up these reform measures are geared to restoring operational efficiency and attracting capital resources from the private sector.

Work Programme on Parastatal Reform and Associated Issues

Measures to clarify and speed up the reform programme in Tanzania, including both privatisation measures and measures to improve productivity of retained public enterprises, will have to be formulated immediately after the establishment of the Privatisation Commission and its Secretariat. It is envisaged that substantial technical assistance will be required to facilitate the reform programme. Other action programmes will include measures to strengthen the business environment.

In support of the reform programme to which the Government of Tanzania is committed, a series of industrial sub-sector studies – metals, agro-industry, wood, chemicals, leather, textiles and oils – are in the process of being finalised with assistance from the World Bank. In order to ensure a rational prioritisation of parastatal enterprises, the government policy statement tentatively gave some broad general guidelines with respect to the classification of parastatal enterprises and sequencing of privatisation. The following classifications will be applied, inter alia:

(i) Social Services;

(ii) Public Utilities;

(iii) Commercial Enterprises.

Social service institutions are defined as those that do not generate revenue from sales of goods or services. These will be absorbed into government administration and financed directly through the national budget, while being subjected to the programme to improve cost-effectiveness.

Public utilities which generate revenue will, subject to review, remain mainly within the state sector, but will be subject to cost-cutting, efficiency improvement and performance monitoring programmes. Such enterprises will be expected to earn

profits, and to this end the Government will adopt policies of liberalising prices and charges to consumers. Private sector provision of part of these services will be encouraged in order to improve efficiency and promote new technology.

Commercial enterprises, which are expected to operate at a profit, will be available for foreign and local participation, including privatisation by means of joint venture, full or partial sales of shares, leasing and management contracts. Those commercial enterprises which cannot be operated profitably within the state sector, and cannot find co-operating private resources, will be closed and liquidated. The disposition of each enterprise would be decided on a case-by-case basis, according to specific opportunities.

Ownership Structure of Privatised Enterprises

The Government is aware that the divestment of parastatals involves issues of foreign and indigenous ownership. Hence, the need to preserve a degree of indigenous ownership in privatised public enterprises is strongly felt by the Government. It is the Government's responsibility to build up acceptability of the programme among the people and politicians of Tanzania. In general, the need to attract capital, technology and stable and responsible management, will undoubtedly necessitate majority shareholdings. The Government will, in the case of each enterprise, apply principles to determine the minimum proportion of the equity shares to be retained on behalf of the people of the country and the proportion to be divested to local or foreign investors. The shares retained will be held initially within financial institutions through vehicles such as investment trusts. In due course, as the capital market develops, part or all of the shares held by the state will be sold, either to the general public or to the workers and management of enterprises, either for cash or through credit plans.

It is recognised from the outset that the sale of enterprise equity involves complicated issues of valuation, to ensure that the state receives a fair price for the assets or shares being sold. It is the commitment of the Government of Tanzania to ensure that valuation of assets will be carried out professionally. With the establishment of the Privatisation Commission and the Secretariat, steps to guide the sale of parastatal assets will be set out in order to ensure transparency and fair price. The initial exercise of the Secretariat and its technical committees will involve complicated issues of asset valuation, preparation of enterprise profiles and bidding documents, invitation of bids, pre-selection of investors, valuation of bids, negotiation with prospective investors, etc.

Public Enterprise Debt Settlement

Many parastatal enterprises in Tanzania have incurred significant debts which they have not been able to service and which are guaranteed by the Government. A general solution is required to rationalise these debts and regularise enterprise balance sheets so as to facilitate privatisation/joint ventures, and to restore solvency and bankability of enterprises. It is realised that this problem is currently concentrated in a relatively small number of public enterprises – about fifteen; the present value of these enterprises being thus reduced by the amount of past debt which was contracted and not repaid. Negotiations with prospective buyers in respect of the public enterprises which are heavily indebted will be rather difficult.

The general solution would involve:

- transfer of the devaluation component of outstanding debt from the public enterprise to the Government;
- consolidation of overdraft arrears into medium-term loans;
- conversion of debt into government or bank equity in appropriate cases; and
- elimination of inter-enterprise cross-debts. At the same time revaluation of assets should be carried out.

Following this, the balance sheets of the public enterprises would become more transparent and capital restructuring would be facilitated. This general approach, however, may have to be modified in order to avoid a "bail out" to indebted public enterprises which have not yet secured restructuring deals because such a bail out might delay restructuring or privatisation. It is also logical to de-link internal from external PE debt liabilities. Settlement of external debt would generally be the responsibility of the Government.

The method of valuation of PEs is important because it affects:

- the receipts from asset and share sales; and
- the public perception that sales have been administered fairly (transparently).

A problem that will have to be addressed in Tanzania during the transitional period of reform is that of the PEs that are currently financially unprofitable but which are regarded as potentially viable. A mechanism has been developed in Tanzania of transferring unviable companies to the Loan and Advances Realisation Trust

(LART). This group of enterprises would consist of units which have ceased to operate. But there will be a category of PEs which are potentially capable of becoming viable after restructuring. An interim financing provision would be needed for this category of PEs.

Labour Redundancy

Parastatal restructuring and privatisation will cause some labour redundancy. The transitional period will be difficult for those rendered unemployed and for their families. The Government of Tanzania is aware of this consequence. A solution to the problem will involve a review of a number of measures, including severance payments; grant funding for setting up small businesses; retraining programmes, especially for business start-up skills and job placement services; possibility of giving out-going workers shares in privatised enterprises; and external donor assistance could be forthcoming to assist the Government in setting up a number of such schemes and complementing other government efforts in resettling laid off workers.

In order to implement the complex process of parastatals restructuring and privatisation, the Government has appointed a Presidential Parastatal Sector Reform Commission (PPSRC) whose major terms of reference will be to:

- develop operating policies and procedures on how to implement the reforms decided by government;
- review specific policies and legislation pertaining to the parastatal sector;
- Prepare an up-to-date list of all operating parastatals;
- review, and where necessary undertake, detailed analysis of individual parastatals so as to determine priority/sensitivity and viability and ultimately the price of each share;
- undertake financial analysis of those parastatals to be amalgamated or restructured;
- to give recommendations as to what action should be taken on each parastatal after consultation with all relevant authorities; and to oversee implementation of agreed action.

The Commission will submit its recommendations on action to be taken directly to the Cabinet, or a committee of the Cabinet, for final decision without going through the established bureaucratic process.

In order to give effect to the restructuring and the proposed reforms of the public sector, the Government is taking measures to provide for a legal framework for the implementation of these reforms, namely:

- introduction of a new bill or review of the Public Corporation Act, 1969 to ensure the proposed reforms are implemented accordingly and to set out new provisions for the establishment of public corporations on commercial principles;

- enable certain institutions, including District Development Corporations, non-commercial services institutions, sports and culture institutions and institutions of learning to cease to be public corporations;

- amendment of the Treasury Registrar Ordinance;

- enact new law to provide for the establishment of capital market(s); and

- review of the existing companies ordinance (Cap. 212) to accommodate the proposed reforms.

Finally, the implementation of the Parastatal Sector Reform will be undertaken in a co-ordinated manner and in the context of all other programmes which are now being implemented under ESAP. The manner and pace of the reform process of the parastatal sector will be expedited as far as is technically and administratively possible, consistent with the country's overall development policy.

20

PRIVATISATION AND DIVESTITURE STRATEGY OF THE REPUBLIC OF THE GAMBIA

A. M. Touray

Introduction

The Gambia has relatively few public enterprises compared to other West African countries. The Government has generally followed a cautious policy in the creation of public enterprises. Public enterprises have been established as a catalyst in sectors with economic development potential but where private investment was lacking, such as livestock production, fish processing, tourism and indigenous banking and insurance services. At present there are eight wholly owned non-financial public enterprises in The Gambia. These include the Gambia Produce Marketing Board (CPMB); Gambia Utilities Corporation (GUC); Gambia Ports Authority (GPA); Gambia Telecommunications Company Limited (Gamtel); Livestock Marketing Board (LMB); National Trading Corporation (NTC); Gambia Public Transport Corporation (GPTC); and Atlantic Hotel. In addition, there are eight partially owned non-financial PEs, including three hotels (Senegambia Beach Hotel, Kombo Beach, and African Hotels), Gambia Airways, Banjul Breweries, CFAO and Seagull Coldstores Limited. There are also two financial public enterprises that are wholly owned by Government; these include the Gambia Commercial and Development Bank and The Gambia National Insurance Corporation. The Government holds 10 per cent of the stock of Standard Chartered Bank (Gambia) Limited. The Social Security and Housing Finance Corporation, another financial public enterprise, is owned by the aforementioned public enterprises and other private sector enterprises.

Citroproducts (Limes processing) is owned by four public enterprises, and Gamtan (processing of hides and skins) is a joint venture company between Livestock Marketing Board and TCV, a Belgian Company.

One of the conditions stipulated by the World Bank in connection with the granting of the structural adjustment credit is the establishment of a task force to tackle the divestiture and rationalisation of enterprises in the public enterprise sector. The task force comprises representatives of: Office of the President Ministry of Finance and Trade (MFT); Ministry of Justice; Ministry of Economic Planning and Industrial Development (MEPID); National Investment Board (NIB); and the

responsible ministry and enterprise on a rotating basis. NIB is expected to serve as the lead agency for the divestiture and rationalisation programme and the task force would function under its chairmanship. The functions of the task force are:

- formulation of a detailed strategy/plan which clearly sets out the criteria to be followed for divestitures and liquidation;
- selection of enterprises for possible divestiture;
- consideration of: ownership restrictions (if any) to be applied to in divestitures, and methods of sale;
- identification of: policy and financial issues which must be resolved prior to sale, and potential buyers.

Gambian Enterprise

The privatisation programme adopted by the Government was influenced by the following categorisation:

(a) *companies with minority government shareholding*

- Standard Chartered Bank Gambia Limited
- CFAO (Gambia) limited
- Seagull Cold Stores
- African Hotel Limited
- Banjul Breweries
- Kombo Beach Hotel

(b) *companies with government participation as sole owner, or majority/minority shareholder with government fully guaranteeing company's loan capital*

- Atlantic Hotel
- Senegambia Beach Hotel

(c) *parastatals to be incorporated as limited liability companies*

- National Trading Corporation
- Gambia National Insurance Corporation

(d) *new companies to be incorporated as joint ventures between government and foreign partners*

- Scanaqua
- Noraqua
- FPMC
- Gambia River Authority

(e) *strategic corporations*

- GPMB
- GPA
- GUC
- GCU
- GAMTEL
- GPTC
- LMB
- SSHFC

(f) *government departments and production centres*

- Post Office
- Saw Mill section of Forestry
- Carpentry section of PWD
- Motors Workshop (Kotu)

The divestiture and rationalisation programme was implemented in phases commencing with the companies in which the Government had a minority state (category a). The Government's shares in them were to be sold as soon as the formalities were completed. It would entail a simple transfer of ownership to the private sector without further involvement of the Government, except perhaps in the case of the Kombo Beach Hotel due to the loan guarantee. The Government's shares on the two hotels – Atlantic and Senegambia (category b) were to be sold *while maintaining the Government's presence in their boards to safeguard its interest as a guarantor to the investment*. The companies under categories (a) and (b) were to be tackled during the first phase. Depending on the scope of the preparatory work involved, the task force was to stipulate the period for the completion of the first phase. Specific proposals in respect of the other enterprises were to be prepared after an in-depth study of the issues involved on a case by case basis.

Divestiture Strategy Action Plan

Introduction

A key element in the Economic Recovery Programme (ERP) of the Government of The Gambia is the divestiture and rationalisation of government public enterprise holdings. The Memorandum on the subject mandated the Task Force on Divestiture and Rationalisation as follows:

(i) government's endorsement, in principle, of privatisation of enterprises in the para-public sector on the lines presented in the memorandum;

(ii) utilisation of the sale of the Government's shares in the different enterprises for the creation of a broad-based Gambian entrepreneurial class as an opportunity to develop the sector;

(iii) provision of incentives to facilitate the purchase of the Government's shares by Gambians and institutions fully owned by Gambians;

(iv) encouragement of the purchase of the Government's shares by Gambian employees of enterprises selected for privatisation;

(v) Initiation of marketing campaigns to promote the sale of shares;

(vi) maximisation of revenue from the sale of the Government's shares;

(vii) the privatisation of enterprises to be the sole responsibility of the Task Force;

(viii) that the sale of the Government's shares in these enterprises should be carefully handled to avoid the concentration of economic power in the hands of a few Gambians which would result in the domination of the economy by a few persons;

(ix) the National Investment Board should serve as a secretariat to the Task Force and implement the recommendations of the Task Force after due consideration by Cabinet.

Benefits of Divestiture

The divestiture and rationalisation programme should also provide additional benefits as detailed below. It should:

- enhance the Government's ability to manage the remaining enterprises and allow government to focus its efforts on key strategic enterprises which are essential for the success of the ERP;

- reduce the demand on government to provide new loans and equity to enterprises, thereby allowing government to direct its financing to areas of highest priority in the ERP;

- provide cash proceeds to government through the sale of enterprises, assets or holdings;

- allow an infusion of new equity, management and technology into enterprises, thereby supporting enterprise rehabilitation and improved efficiency;

- improve the productivity and profitability of divested enterprises by exposing them to greater competition and market discipline;

- also foster the development of productive private enterprise in the economy.

Types of Privatisation

The following types of privatisation transaction would be engaged in The Gambia:

(i) Sale as a going concern, i.e. full divestment of government shareholdings in the following enterprises:

- Standard Chartered Bank (G) Limited
- CFAO (G) Limited
- Banjul Breweries Limited
- Seagull Coldstores Limited
- Kombo Beach Novotel Hotel
- African Hotels (Sunwing)

In the case of the above, government shareholdings in these enterprises would be by direct sale on the basis of the valuation of the respective company stocks to determining the share prices.

(ii) Partial sale of wholly state-owned public enterprises after transformation into limited liability companies.

The enterprises in the this category would include:

- GCDB
- GNIC
- GPTC
- NTCG

Shares in these enterprises would be by direct sale to subscribers, based on the offer price.

(iii) Spin-offs of public enterprise activities to be sold on piecemeal basis. Public enterprises under this category would include:

- GPMB:
  Real Estate holdings
  Construction Department
  Rice Mills, etc.

- GPA:
  Ferries
  Dockyard

The sale of these spin-off activities would be by private placements.

(iv) Full sale or lease of assets to private operators could be considered for the Atlantic Hotel. Alternatively, a management contract with an option to buy could be negotiated for the hotel.

Authorisation Process

The authorisation process for The Gambia's privatisation programme was vested in the executive. A task force comprising the relevant agencies was constituted to study the privatisation possibilities and options available to government and to make recommendations for approval by the executive, once approval was obtained, the task force proceeded with the implementation process. The NIB serve as secretariat to the task force and handled the divestment programme. The office of the Attorney General is represented on the task force to provide legal advice and guidance on the privatisation process.

Domestic Capital Constraints

The Gambia has very little experience in the flotation of company shares. The Standard Bank and CFAO share offerings in the late 1970s were both under-subscribed necessitating government equity participation to guarantee the successful

local incorporation of both enterprises. Subsequent attempts to sell government shares by the Ministry of Finance and Trade, met with limited success.

However, the planned disposal of government shares in Seagull Coldstores Limited have, theoretically, been over-subscribed and it remains to be seen on the flotation of these shares whether the purchase intentions will yield concrete results.

It is generally accepted that access by the private sector to domestic savings should be improved by the introduction of securities market, which would readily facilitate the buying and selling of shares and other monetary instruments. Government would require technical assistance for the institution and development of a securities market.

Post-Valuation of Share Offerings

The NIB would institute a monitoring system to determine the movement and direction of shares divested by government. The system would also try to ascertain the reasons for transfer of shares among the private stockholder to determine whether it is speculative or engineered to provide for a concentration of stock holdings in too few hands.

The members of the task force charged with the implementation of the privatisation programme will not be eligible to subscribe for shares to be divested by government. This is to avert any possible advantages that might be derived from insider information on the value and/or growth potentials of entities to be privatised.

21

PUBLIC ENTERPRISES IN REFORM AND PRIVATISATION IN KENYA

S. Muindi

Kenya's PE Background

In Kenya, as in most developing countries, the period after independence was marked by a deliberate policy of direct participation by the Government in production and trade over and above the control structures inherited from the colonial regime. A variety of social, economic and political objectives were set, including decolonisation, rapid development, the redress of regional imbalances, increased participation by Kenyan citizens in the economy and promotion of indigenous entrepreneurship. In addition to the Government's desire to participate directly in the production and trade sectors of the economy, private investors (particularly foreigners) sought government participation in joint ventures to ensure continued government support for such ventures.

Later, another category of Public Enterprises, Development Finance Institutions, (DAIS) were created to provide financing for development projects unable to obtain financing from conventional private sector sources. Similarly, investments made in enterprises by the Government, in its role as trustee for Kenyans who were not endowed with risky capital resources or the necessary entrepreneurial skills at the time of independence, became permanent holdings by the Government due to a lack of a conscious effort to divest those investments to citizens as they became wealthier and gained business skills.

During the 1970s, it became increasingly apparent that government participation in the economy had grown well beyond the Government's original intentions. Furthermore, a large debt exposure among PEs resulted in increased vulnerability. This caused PEs to be highly leveraged because of their static equity base. Operating losses and inadequate returns on investments further eroded the already weak capital bases of the PEs.

The resultant administrative and regulatory interventions introduced to protect the ailing PEs resulted in a diversion of limited managerial capabilities and resources from the fundamentally more important areas of policy, infrastructural investment, development of social services and the management of the economy.

While the creation of the PEs was perhaps appropriate at independence, the changed circumstances, together with poor performance record of the PEs, have mandated the need to review continued government participation in them and/or the macro-economic policy environment, and the sectoral policies as well as enterprise-specific policies in which the PEs operate.

Past Efforts to Improve Performance of Public Enterprises

The Government of Kenya has made a number of attempts in the past to improve PE sector performance. In 1979, following the publication of a government report on parastatals, the **Parastatal Advisory Committee** was formed. At the same time the Government enlarged the role of the Inspectorate of State Corporations to serve as a troubleshooting, management audit and consulting service for parastatals.

In 1982, the Government released the findings of a Working Party on Public Expenditure, which detailed many serious deficiencies in the financial and economic performance of PEs. The report suggested a series of reforms and proposed the possibility of reducing the role of PEs and replacing it with increased private sector activity. As a result of the Working Party Report, direct budgetary transfers to the PEs were severely restricted, declining from Kshs.1.12 billion in 1982 to Kshs. 0.36 billion in 1984. Ironically, the resulting gap was at first financed by flows from the banking system, which increased from Kshs. 0.16 billion in 1982 to Kshs.1.2 billion in 1984, thus neutralising the intended effect of making capital available for productive new investment instead of propping up ailing public sector ventures.

By the fiscal years 1989/1990 and 1990/91, however, the flow of funds from the Government to PEs had returned to the 1982 levels.

Piecemeal Reform Attempts

Past efforts by the Government to improve the performance of PEs was coupled with reform measures. However, these reform measures followed a firm-by-firm approach. As a result the progress towards reform of the PE sector has been slow and unco-ordinated. The need for a comprehensive PE reform programme with well identified core elements and clear policy guidelines has therefore become apparent.

It is in the light of these experiences that the Government of Kenya has recently come up with a comprehensive PE reform and privatisation programme.

PE reform includes all restructuring and operations rationalisation measures aimed

at making the PE sector viable while privatisation and divestiture involve the transfer of a function, activity, organisation or investment holding from the public to private sector.

Kenya's PE Reform and Privatisation Programme

The Government of Kenya is now in the process of implementing a comprehensive PE reform programme whose overall aims have been spelt out as:

(i) enhancing the role of the private sector in the economy by shifting more of the responsibility for production and delivery of goods and services from the public to the private sector; to create a more level playing field by eliminating preferential treatment, including monopoly rights; and to enable the private sector to enter the areas of activity of the PEs on an equitable basis;

(ii) reducing the demand of the PE on the Exchequer so as to improve the use of Kenya's scarce resources, and to enhance the returns on those resources by achieving greater efficiency in both private and public enterprises through greater responsiveness to market signals and commercial criteria;

(iii) reducing the role and rationalising the operations of the PE sector;

(iv) improving the regulatory environment by selecting more economically rational means of regulation, thereby reducing conflicts of interest between the regulatory and commercial functions of PEs that are consistent with government policy;

(v) broadening the base of ownership and enhancing capital market development.

Scope of PE Reform and Privatisation

There are about 240 commercially oriented PEs with direct or indirect government ownership. Of these, the Government has designed 33 PEs as strategic enterprises and intends to retain its ownership and active Board participation in them for the time being. The remaining 207 PEs have been classified as non-strategic enterprises and constitute the Government's privatisation programme.

The Government has defined PEs as "strategic" if they provide essential services

or are considered to play a key role from the viewpoint of national security, health and protection of environment.

The Government has also stated its intention to divest its interest in companies where it has minority holdings. The divestiture is mainly for budgetary resource mobilisation for the Government.

The process of privatisation is not viewed as an end in itself but as an integral and visible element of the Government's overall PE reform programme and a progressive effort to promote productive efficiency, to strengthen competitive forces in the economy and to support entrepreneurial development.

Policy Guidelines for PE Reform

The discernible primary objectives of the PE reform programme appear to be:

- to reduce the financial burden of the PE sector on government;
- to enhance the efficiency and performance of the PE sector;
- to bring about financial discipline, managerial and financial autonomy, appropriate incentives and accountability, all aimed at having the PEs operating on commercial principles.

The principles of the PE reform programme which are guiding action toward the desired objectives have been articulated as follows:

- The operations of the PE reform will include only viable commercial activities, except for certain cases where the Government directs the PE also to undertake activities for other than commercial reasons. However, such non-commercial activities will only be retained on a separate operational and accounting basis and with contractual arrangements giving the PE full compensation for the activity through transparent budgetary provisions.
- Where PE operations currently include regulatory functions, these will be divested and either eliminated or assigned to a separate regulatory body.
- PEs will operate on a self-sustaining basis and with a hard budget constraint that will oblige them to institute and maintain adequate financial discipline. Subsidies will be phased out except for those relating to non-commercial activities as mentioned above.

- A major goal of PEs will be profitability through efficient operations in a competitive environment. Over the longer term, a crucial reform objective is to move to market pricing wherever competition is possible. This goal will be promoted through the break up of monopolies, reduction of trade barriers, and elimination of barriers to private entity. In order to facilitate PE achievement of these aims, their managements will be provided with the maximum autonomy over key operational variables such as prices, procurement and salary levels, when compatible with prevailing conditions.

- Public Service PEs operating under monopolistic conditions will, in common with private entities of similar nature, be regulated as needed to protect the public interest, primarily through review and approval of tariffs, maintenance and replenishment of all kinds of capital resources, and cost containment. Such regulation will be implemented through autonomous specialised bodies operating independently from the Government line structure, thus insulating them from political interference.

- The legal and regulatory framework within which PEs are to operate will be streamlined to provide a "level playing field", with the aim being to facilitate an equitable and fair basis for the efficient functioning of both public and private sector enterprises under competitive and freely market-based conditions, and to provide protection to consumers when necessary. With this objective, the legal framework applicable to the private sector, including the Companies Act, will be made equally applicable to PEs.

- Government's ownership functions over majority-owned PEs will include the same rights and responsibilities as the analogous functions in the private sector. In its ownership role the Government will thus:

  - select and appoint competent and qualified persons to PE boards according to a widely publicised and transparent process;

  - provide PEs' management with clear, non-conflicting objectives;

  - agree with management on the strategy and corporate instruments reflecting it;

  - leave management as free as possible to achieve the objectives;

  - oblige management to full and transparent accountability and perform "ex poste" evaluations of management performance.

- All aspects of PE business will be performed in a commercial and transparent manner. The fact of being a PE will not constitute an acceptable reason for directly or indirectly according favourable treatment to PEs, such as exemption from taxes or fiscal charges or preferential access to imported or domestic inputs.

The foregoing principles are designed to secure autonomy from political interference.

Policy Guidelines for Privatisation

Privatisation and divestiture have been defined as the transfer of a function, activity, organisation or investment holding from the public to the private sector. Privatisation and divestiture are strategies of enhancing the role of the private sector in the economy by shifting more of the responsibility for production and delivery of goods and services from the public to the private sector.

The principles of the privatisation/divestiture programme which are guiding action toward the desired objectives have been articulated as follows:

- PEs will be divested into competitive markets and purchasers will therefore not obtain an intact or unregulated monopoly.

- Purchasers will not be accorded special protection or access to credit on concessionary terms.

- In cases where the Government retains a minority shareholding, it will not exercise any special or extraordinary voting rights, except in limited, predetermined and well defined policy areas.

- There will be moratorium on new Government investments in enterprises that are to be privatised, except for financial and operational restructuring that are necessary to prepare PEs for sale.

- All privatisation sales will be on a cash-only basis, with the possible exception of shares sold to the workforce of the affected firms.

- No specific class of potential purchasers will be excluded from participating in the privatisation/divestiture process.

- All transactions will be conducted in an open and transparent manner consistent with normal standards of commercial discretion.

Unless justified by the existence of legal rights no predetermined direct sale or negotiations by private treaty will be entertained except after publicly solicited bids have been obtained. All aspects of the transactions will be in the public domain where appropriate. This means:

- a prospectus or offering memorandum will be prepared and publicised for each firm to be sold;
- a full body of financial, management and other information will be available for disclosure to the investing public;
- fair and equitable bidding procedures will be established;
- criteria for ranking bids will be established and publicised;
- bids will be opened in public;
- the valuation of the assets and the details of all offers received will be placed in the public domain.

- To promote and ensure the competitiveness of the markets in which privatised companies will operate, the Government will continue to build upon existing anti-monopoly legislation and the institutional capacity to implement it in a transparent manner.

- No new PEs will be established in the productive sector, except for investments made purely for venture capital assistance through the Development Finance Institutions.

Privatisation/Divestiture Process

The privatisation/divestiture process is perceived as involving two main and distinct phases. The first phase is **preparation** and entails a detailed review of the PE, covering operational, financial and legal issues, in order to determine its current condition, potential strengths, weaknesses, and financial restructuring requirements, if any. This is followed by the construction of operational and financial models for the PE to project likely results under several scenarios. These steps lead to a valuation of the PE as a going concern, which forms the basis for establishing a range of values that can be used in negotiations with prospective investors and setting the share price for a public offering. For comparative purposes, asset valuation is also conducted to ascertain the value from both a replacement and a liquidation perspective. This phase concludes with the preparation of a privatisation plan of action that fully documents the results of all the analysis conducted up to

this stage. The action plan also includes a detailed set of recommendations on how to proceed to execute the transaction.

The second and final phase is **execution** and entails the implementation of the transaction. By this stage, all key decision-makers have approved the privatisation action plan. Tasks to be performed during this stage include, where necessary, the preparation of the sales documentation, (e.g. prospectus, information memorandum) completion of any financial and operational restructuring required prior to divestiture, resolution of all outstanding legal issues that affect the sale, the design and implementation of a PR campaign to inform the public of the impending sale, and finally the execution of the sale itself.

Methods of Privatisation/Divestiture

There are a number of alternative ways of effecting privatisation/divestiture. Common among these are:

(i) public offering of shares on the stock exchange;
(ii) sale of shares by private placement;
(iii) negotiated sales;
(iv) sales of PE assets (including liquidation);
(v) new private investments in PEs;
(vi) employee/management buy outs;
(vii) leasing or award of management contracts;
(viii) joint venture: commercial agreement between a PE and one or more business partners to operate a business;
(ix) franchising: a fixed-term contract or licence to a company to operate a service.

The choice of a privatisation option is often determined according to the following criteria:

- Objectives perused by the Government for each sale.
- Record of performance and economic prospects.
- Size of the PE and the ability to mobilise private funds.

Institutional Arrangements

In order to achieve the Government's objectives in the PE reform and privatisation programme, the Government has created a high level policy-making body, the

Parastatal Reform Programme Committee (PRPC), the functions of which are:

- to supervise and co-ordinate the implementation of the PE reform programme in general;
- to prioritise and determine the timing of the sale for each non-strategic PE;
- to approve the operational guidelines for privatisation to be followed, including the criteria and procedures to be followed in the divestiture decisions;
- to give final approval or rejection for the sale of public assets;
- to monitor and evaluate the progress of implementing the programme;
- to provide political impetus for privatisation and participate in building public awareness and the national consensus in support of the Government programme.

Another body, the Executive Secretariat and Technical Unit (ESTU) has been established to act as an autonomous execution agency and as the Secretariat of the PRPC. The ESTU is responsible for the management, co-ordination and implementation of the privatisation/divestiture programme as approved by PRPC.

The Department of Government Investments and Public Enterprises (DGIPE) has been established within the Ministry of Finance and charged with specific powers and functions which are designed to render it as autonomous as possible. The DGIPE is responsible for those aspects of the reform programme that are related to parastatals which are to remain in state hands. Indeed the DGIPE is expected to carry out effective oversight and leadership of the PE reform process. This would include roles traditionally carried out by "parent" ministries. The sector ministry's functions in relation to PEs are expected to be limited to developing sector-wide policies and programmes. The PE Boards of Directors are expected to be responsible for setting corporate operational policies and to ensure that executive managements carry them out.

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22

PRIVATISATION IN SIERRA LEONE

A.H. Kandeh

Background

The Republic of Sierra Leone, with an area of approximately 28,000 sq. miles, is located on the west coast of Africa between latitudes 5 and 10 degrees north and longitudes 10 and 15 degrees west. Classified by the United Nations as a "least developed country", Sierra Leone has a population of 4.2 million which is growing at a rate of 2.6 per cent per year. The country is endowed with substantial mineral wealth, ample cultivable agricultural land and rich fisheries. Agriculture employs most of the population in low productivity, labour intensive farming. The mining sector consists of a capital intensive enclave and substantial alluvial operations.

Per capita income is US $170 (1992) and the distribution of income is markedly uneven. Over two-thirds of the population live in absolute poverty and urban living conditions are extremely difficult. Rural life is at a subsistence level. Infant mortality is still one of the highest in the world, while other key indicators, such as life expectancy of 42 years and primary school enrolment, are among the lowest. Rural feeder roads are in a state of collapse and trunk roads are in very poor conditions. Human resource development has been neglected for many years. Schools and hospitals lack the most basic supplies.

The country obtained its independence from Britain in April 1961 and became a Republic in April 1971. Since 1961, the country has had four successive governments, two civilian and two military, the longest serving being the civilian Government of the All Peoples Congress (APC) party which gained power in 1969 and remained in office for 23 years until it was ousted by the current military government on 29 April 1992.

Performance of the Public Sector in Sierra Leone

Performance of the public sector lies at the heart of the decline in growth of the Sierra Leonean economy. By the beginning of the 1980s, the public sector had taken on too much, intervening with poor results in areas such as allocating foreign exchange and directing credit where markets work reasonably well. The public sector was also accomplishing far less in the provision of essential services such as roads, electricity, medical and educational facilities.

A major reason for the extremely poor performance of the public sector was due to limited technical and institutional capacities, which undermined further the economic crisis. Declining growth in the economy reduced the tax base, depriving the Government of the resources to pay competent staff and provide essential services.

Other reasons for the over-extension of Government activity were the post-independence economic and political conditions. The indigenous private sector was very weak, and non-indigenous elites and foreign businessmen relatively dominant. Under these circumstances, it was understandable that the Government took an interventionist stance, the prevalent view being that the economy could grow faster where the public sector played an active role in production and directing the allocation of resources to bring about faster industrialisation.

The failure of the above strategy is manifest everywhere in the country, but the circumstances have not changed radically. Public sector institutions remain weak, even weaker now that the economic crisis has taken its toll. The indigenous private sector continues to be smaller and economically weaker than other, more established private sector groups. Reform has become even more difficult, as the benefits of interventionist policies have created powerful public sector institutions with a strong interest in their perpetuation. Now more than ever, fundamental reform of the public sector is needed to reverse the economic decline, yet it has become more difficult to achieve. The World Development Report 1991 discussed the emerging consensus on the need for a market-friendly approach to development. That approach calls for governments to do less where markets work reasonably well and to do more where they do not. The areas for more government action are:

- investing in human resource development;
- providing a competitive climate for enterprises;
- opening up to international trade; and
- ensuring stable macro-economic management.

Government's efforts to stabilise the economy through improved public sector management have been sustained in the face of large shocks to the economy. The influx of nearly 200,000 refugees from the neighbouring Republic of Liberia, equivalent to five per cent of the population of Sierra Leone, and the country's participation in the ECOWAS peace-keeping initiative, exerted significant pressure on government finances. Despite assistance from other neighbouring countries, Sierra Leone incurred substantial expenditures to restore military capacity to expel rebels, who had invaded the country from Liberia, and to provide food and shelter for the displaced. These events, compounded by rising energy prices during the Gulf crisis and a sharp expansion in war-related expenditures, caused a resurgence of inflation. The deep incursions into the mineral and agricultural-rich Eastern and Southern Provinces by rebels from Liberia and continuous rebel activities in these areas have imposed additional strains on the economy.

Public Enterprises Performance and the Need for Reform

There are currently 46 public enterprises in Sierra Leone covering a wide range of economic activities involving the production, marketing and service sectors. A profile of these enterprises as of 1990 indicates that the major enterprises added 10 to 12 per cent to the Gross Domestic Product (GDP), 15 per cent to Gross Capital Formation, and a cross-section of them have been responsible for about 4 per cent of employment in the formal sector.

Public enterprises no doubt play a significant role in economic activity and employment in Sierra Leone. These institutions were created in the past for various reasons. First, it was widely believed that public enterprises would provide the Government access to much needed revenues. Government believed at the time that public enterprises would generate large profits with which it would be able to finance investment in priority sectors of the economy.

Second, public production corresponded closely to an ideological climate in which the private sector was held in low esteem and a large public role in the economy was seen as necessary for rapid and sustained development. Control over particularly strategic enterprises was justified as needed to help steer the economy and overcome critical bottlenecks. National security reasons were sometimes added to these justifications, particularly regarding heavy industry.

Third, local private entrepreneurs were in short supply; they did not have access to adequate levels of capital, or were linked to unpopular minorities. In part, because of political restrictions, as well as the anti-business climate that government policy created, which constituted disincentives for investment, there was sometimes no alternative to public production. Accusations of hoarding,

speculation and unfair trading practices by foreign-born business entrepreneurs and middlemen led government to nationalise marketing and distributing operations, or to tax them so heavily that the private sector disinvested from these areas.

Fourth, in political terms, public enterprises constituted important resources for state elites to be developed and harnessed in the form of potential rents, jobs and the servicing of constituencies. Patronage and technocratic considerations combined to make public production a popular policy outcome. In some instances, distributional considerations played a role, for example, the Government justified investments to reduce regional inequalities or to enhance employment creation. Government invested in social services and housing and capital-intensive agricultural schemes to modernise poor regions.

A close examination of public enterprise operations in Sierra Leone over the past two decades, however, indicates that overall performance has been relatively uneconomic.

Returns on investment have, in over 70 per cent of the cases studied, been negative and clearly 90 per cent of them have had adverse cashflow problems, and saddled with internal and external debt problems. In addition to other managerial problems of a non-financial nature, public enterprises in Sierra Leone seem to have a bleak horizon as evidenced from the 1984 World Bank findings:

- the financial situation of many public enterprises is critical;
- difficult economic conditions domestically and world-wide, and consequent government actions taken to limit access to foreign exchange and bank credit, pose major problems for the public enterprises at present;
- price controls and ad hoc policy-making by the Government have constrained some public enterprises;
- Government-public enterprise relations have allowed a healthy degree of management autonomy, but improved policy guidance and monitoring of performance are required;
- internal management of public enterprises varies considerably in quality: it is fairly capable in a few cases, but in a majority, it needs to be substantially improved, especially in planning, training and accounting.

Because of this abysmal situation, alternatives in the management of public enterprises were seriously discussed at governmental and international levels.

Discussions with the World Bank in 1989 suggested structural reforms and the

consideration of divestiture and privatisation options for the public enterprise sector. These discussions with the Bank, which eventually led to negotiations for the first adjustment credit – the Reconstruction Import Credit (RIC) – called for the restructuring and reform of seven major public enterprises, namely the Guma Valley Water Company (GVWC), National Power Authority (NPA), Sierra Leone Ports Authority (SLPA), the liquidation of the Sierra Leone Petroleum Refining Company (SLPRC) and the Sierra Leone Produce Marketing Board (SLPMB); the divestiture of government ownership in the Sierra Leone National Petroleum Company (NP), and the privatisation of the National Insurance Company (NIC). All of these institutions had serious management and financial problems. With the exception of the NP and NIC, all had serious local and external debt problems and were considered a heavy drain on the government budget.

The new policy of the Government thus became the privatisation of those public enterprises, or their functions, which could be managed more efficiently by the private sector, and the restructuring of those enterprises considered strategic in the national interest, thereby improving their efficiency.

A further requirement of the Reconstruction Import Credit, in the light of the Government's lack of experience with privatisation matters, was the setting up by legislation of an independent Public Enterprise Reform and Divestiture Commission with executive powers to conduct all matters relating to the restructuring, divestiture and privatisation of public enterprises.

Despite all of these requirements, the Government found it almost impossible to achieve any success with the implementation of reform measures due to the lack of capacity to do so. Vital information on public enterprise operations has been lacking for several years; few enterprises maintained up to date financial records and among those that did, few were independently audited; taxes and dividends were in arrears for a considerable period of time.

The supervisory ministries did not possess the technical or professional ability to exercise any form of control on public enterprises. Unattractive conditions in the civil service have kept trained and experienced professionals out of the reach of government departments. Thus in many cases, the enterprises were left to themselves to implement reform measures. Hence the urgent need for an independent public enterprises reform commission.

The Public Enterprise Reform and Divestiture Commission (PERDIC)

Owing to a number of problems arising from the Government's inexperience with privatisation issues, coupled with the fact that previous attempts to implement reform measures have met with little success, the PERDIC was not legally

constituted until August 1993 when the Public Enterprise (Reform) Decree, 1993 (Decree No. 10) was promulgated. Without an empowering legislation and amidst a host of controversies arising from the public's misconception of the objectives of the privatisation programme, very little was achieved by the Commission before the promulgation of the PERDIC Decree.

The original legislation defined a public enterprise as one in which the Government held a minimum of 40 per cent shares and limited the PERDIC's role to that of an advisory body to government on all privatisation matters. This definition not only excluded several enterprises in which the Government had a minority interest of less than 40 per cent, but rendered the PERDIC very weak to be able to implement the Government's privatisation objectives.

The aims of the PERDIC legislation have been to empower PERDIC to conduct investigative studies into every enterprise in which government has invested public funds, irrespective of the magnitude of the investment, to recommend appropriate reform measures to the government, and to implement those measures which are approved by government.

With the above goals in mind, the original legislation had to be amended in September 1993, by the Public Enterprise (Reform) (Amendment) Decree 1993 (Decree No. 14) to include every enterprise in which government has invested and to grant full executive powers to the PERDIC to enable decisions on public enterprise reform to be made by the Commission without first referring to government. The amended legislation refers to a "subsequent approval and ratification" of the Commission's decisions on privatisation.

The Public Enterprise (Reform) Decree 1993 (No. 10) as amended by the Public Enterprise (Reform) (Amendment) Decree 1993 (No. 14)

Under the above legislation, government is required to divest itself of any ownership, management, control or other interest it may have in any public enterprise whenever it considers it necessary to do so, after consultation with PERDIC. The objectives of the legislation are to:

- reduce government budgetary costs arising from subsidies and capital expenditures;
- promote competition and improve the efficiency of enterprise operations;
- stimulate both local and foreign investments;
- encourage wide ownership of shares;

- derive capital income for the Treasury.

Section 3 of the Decree creates a Council on public enterprise reform, known as the Council of PERDIC, to be appointed by the Head of State. The Council shall be the decision-making body on all matters pertaining to:

- identifying public enterprises which needed reform;
- the nature of reform required;
- strategies to be pursued and measures to be applied in the reform of public enterprises.

Every decision taken by the Council of PERDIC shall be subject to the approval and subsequent ratification of the Supreme Council of the Government.

Membership of the Council of PERDIC is appointed in accordance with Section 4(1) with three statutory and two non-statutory members as follows:

The three statutory members are:

- The Secretary of State for Finance, who is also Chairman of the Council;
- The Secretary of State for Trade, Industry and State Enterprises;
- The Governor of the Central Bank of Sierra Leone.

The two non-statutory members are:

- The President of the Chamber of Commerce, Industry and Agriculture; and
- The Chairman of the Association of Commercial Bankers.

Section 6(1) sets up the Public Enterprise Reform and Divestiture Commission (PERDIC) to be headed by an Executive Director, assisted by a Deputy Executive Director, and responsible for:

- carrying out studies on public enterprises;
- formulating proposals and recommendations for reform of public enterprises;
- submitting such proposals to the Council of PERDIC; and

- undertaking other responsibilities that the Council may from time to time assign to it.

The Executive Director of the PERDIC shall serve as Secretary to the Council of PERDIC. The Council shall meet at least once a month and at such other intervals as the Executive Director may request. The Council also has the responsibility for approving the organisational set up and budget of the PERDIC Secretariat as proposed by the Executive Director.

The PERDIC Work Programme and Status of the Privatisation Exercise

Following the promulgation of the PERDIC legislation, a comprehensive work programme covering 19 public enterprises was designed by PERDIC and agreed by the Government and the World Bank in the Structural Adjustment Credit (SAC) negotiation of September 1993. The work programme covers the period 1 September 1993 to 31 December 1994 and becomes a conditionality for both second and third tranches under the SAC. These enterprises (the first set among 44), are to undergo reforms ranging from restructuring, through divestiture of Government ownership; privatisation; to liquidation, in satisfaction of the second and third tranches of the World Bank Structural Adjustment Credit.

The 19 enterprises are mainly those that are almost on the verge of collapse as a result of poor management, or enterprises which have ceased to operate due to lack of funds. Some major utilities which needed urgent restructuring to improve efficiency and performance were also included. Previous public enterprise reforms agreed under the Reconstruction Import Credit (RIC) arrangement, which were not completed owing to the Government's inability to do so, were incorporated into the new work programme to be pursued or supervised by PERDIC.

The current work programme covers the following:

Enterprise Restructuring

1. Sierra Leone State Lottery Company Limited
2. Sierra Leone Ports Authority

Divestiture of Government shares

3. Sierra Leone National Petroleum Company (60%)
4. Seaboard West Africa Limited (40%)
5. Precious Minerals Marketing Company Limited (40%)
6. Sierra Fishing Company Limited (25%)
7. Sierra Leone Bricks and Ceramics (40%)

8. Wellington Distilleries Limited (73%)

Lease Contracts

9. Brookfields Hotel
10. Bintumani Hotel
11. Paramount Hotel

Full Privatisation

12. National Insurance Company Limited
13. Forest Industries Corporation
14. Sierra Leone National Shipping Company Limited
15. Sierra Leone Trading Corporation

Liquidation and Sale of Assets

16. National Diamond Mining Company
17. Sierra Leone Produce Marketing Board
18. Sierra Leone Petroleum Refining Company
19. Sierra Leone National Workshop

There has been a slow progress in the reform of public enterprises since the beginning of reform measures almost two years ago. Because the concept of reform is new there has been less general consensus on what is required to improve policies. To the Government, public enterprise reform also presents a bigger challenge because it goes to the heart of governance and needs considerable institutional capacity, which is almost non-existent.

Reforming the public enterprise sector is important if the country is to sustain its macro-economic gains. As long as public enterprises continue to be a drain on government finances and the banking sector, sound macro-economic policy will be difficult to attain.

Since the design of the work programme by PERDIC in September 1993, a number of public enterprises have been studied and recommended for immediate reform. However, only four cases are close to completion at this moment, namely the restructuring of the Sierra Leone State Lottery Company; the privatisation of the Bennimix Food Company; the divestiture of government shares in National Petroleum; and the sale of the assets of the Sierra Leone Petroleum Refining Company. Reform measures in other enterprises have continued to be discussed by the council of PERDIC amidst entangled legal and financial problems of these enterprises which have made reform very slow and difficult.

In a country in serious economic crisis, the Government embarked upon reform measures primarily to ease the fiscal burden and only secondarily to increase efficiency by expanding private ownership. As a result, very little attention has been paid to capacity building and the creation of a proper framework for reform measures to achieve their desired objectives.

Moreover, the concept of privatisation, in its infancy, needs to be explained to the general public who still view any attempt at reforming the public enterprise sector with great suspicion. It also appears that even the Government is frequently not clear about the benefits of privatisation, even though the alternatives, namely, imposing hard budget constraints, granting the enterprises greater autonomy, and putting them on a commercial footing without the requisite ability to perform, have not produced any better results in the past.

Implementation Constraints and the Need for Capacity Building

Major constraints on the implementation of reform measures are related to managerial deficiencies in the country as a whole and weaknesses within the economy. The process of privatisation requires a level of administrative capacity which is scarce. Several problems are beginning to emerge in the privatisation exercise which require well experienced and competent management groups, accounting firms, and investment banks to provide technical advice and arbitrate between competing claims, particularly those regarding the value of the public enterprise to be privatised. The absence of local expertise in these areas frequently calls for foreign experts at very high costs.

A number of strategic enterprises will still remain in the public sector after the privatisation exercise. In these restructured institutions, there will be the need for professional, managerial and technical training in the areas of accounting, auditing, information technology, policy development and management.

The Sierra Leone Institute of Public Administration and Management (IPAM), which has been actively involved in the provision of important training needs for both the private and public sectors, must be encouraged to step up its activities to include: the provision of management consultancy services and expert advice; the organisation of relevant seminars and workshops; and participation in government policy development, if public enterprise reform is to achieve its desired results in the future. The IPAM must continue to play a leading role in capacity building for a successful implementation of the entire privatisation process in Sierra Leone.

23

PRIVATISATION IN AFRICA: THE CASE OF ZIMBABWE

Michael N. Sikwila

Overall Economic Background

Zimbabwe, like many developing countries, has experienced low levels of economic growth and increased unemployment in the last decade. The growth rate in real GDP averaged about 2.7 per cent per annum between 1980 and 1989 and this is relatively low compared to the population growth rate of about 2.8 per cent in the same period.

The budget deficit has increased since Independence resulting in difficulty in servicing the internal debt. Some of the reasons for this situation include: government spending on goods and services, such as health and education and roads which have improved remarkably.

However, of concern is government spending directed at providing subsidies to state-owned enterprises or parastatals. The average growth rate of subsidies to parastatals between the fiscal years 1981-82 and 1992-93 was 21.2 per cent, a relatively high growth rate when compared to the growth of the economy. In addition, the average ratio of subsidies to budget deficit was 25.5 per cent, implying that about 25.5 per cent of the budget deficit went towards financing the operations of the parastatals as subsidies or grants in the fiscal years 1980-81 to 1992-93.

The resources that are employed to sustain the economic activities of the state-owned enterprises could be used to improve the health services or reduce the budget deficit. A cut in the budget deficit is expected to have a positive effect on inflation, and thereby give the monetary authorities room to reduce interest rates in general. High interest rates could inhibit investment, and adversely affect the privatisation of the public enterprises.

The budget deficit growth rate averaged 13.3 per cent between 1981-82 and 1992-93 fiscal year. The high positive growth rate in the budget deficit meant that a substantial share of GDP goes into internal debt-servicing.

Of course, lenders will be willing to lend to the Government at high interest rates

and this affects the private sector in two ways. First, government borrowing in the markets leads to rationing out of private sector borrowers often referred to as crowding out the private sector. Government borrowing tends to reduce liquidity in the money market. Second, high interest rates entail high user cost of capital and high borrowing interest rates discourage investment, and thereby privatisation.

The Public Sector Enterprises

The Government of Zimbabwe has undertaken far-reaching economic reforms in the last three years which include: deregulation of prices and wages, trade and financial liberalisation, substantial real devaluation and stabilisation measures. But it would appear that privatisation with respect to state-owned enterprises has not yet started in Zimbabwe.

In Zimbabwe, before and after independence, state-owned enterprises existed but their number and value increased after independence. The participation of state-owned enterprises in economic activity in Zimbabwe is substantial, but of more significance is the nature of their operation in the economy that creates distortions and inefficiencies.

The promulgation of parastatals is often preceded by parliamentary legislations that give them monopoly status in areas of their interest. It is often argued that state-owned enterprises are necessary in LDCs in order to reduce the outflow of foreign exchange. In addition, indigenous enterprises suffer from a dearth of financial resources, making it necessary for the state to take a leading role in investing in the parastatals.

The largest parastatals in Zimbabwe include the Zimbabwe Electricity Supply Authority (ZESA), Zimbabwe Steel Corporation, (ZISCO), Air Zimbabwe, Zimbabwe Railways, Post and Telecommunication (PTC), Zimbabwe Development Corporation and Industrial Development Corporation and etc. Most of these parastatals share one thing in common: they have benefited from government subsidies extended to cover the costs resulting from their loss-making, non-specialised and misplaced managers, and inefficiencies.

Some of these parastatals are unable to make sustainable profits. It is often argued that the poor financial performance of most parastatals is due to government regulations and control, i.e. they are prevented from setting economic prices.

In an effort to improve the performance of some parastatals such as the railways and others, commissions of inquiry into the performance of the parastatals were set in the 1980s, but these did not lead to a significant improvement of the performance of state-owned enterprises. Thus subsidies continued to flow to the parastatals despite efforts to enhance their operations. Notwithstanding the important role played by some of the parastatals in the provision of essential services such as energy and communications, their performance might have created a financial constraint to both public and private sector performance.

With the economy unable to respond to external shocks, the macro-economic variables, such as the exchange rate and the current account of the balance of payment, deteriorated.

Subsequently, in 1990 Zimbabwe adopted the economic reforms designed to deregulate most of the markets. Thus prices and wages have been decontrolled, but it would appear that some parastatals' output have marginally improved after prices were decontrolled, implying that the inefficiencies had been covered by transferring some of the costs to consumers through high prices.

One of the instruments that often accompany the ESAP is privatisation. Privatisation in the context of ESAP implies selling the parastatals assets to the private sector. The argument is that selling parastatals might lead to a reduction in budget deficit and/or improve their efficiency.

Zimbabwe has so far not disposed of any of its parastatals, rather the policy followed has been to commercialise and/or privatise whenever necessary in whole or in part some of the parastatals. But the question often asked is how do you carry out the privatisation exercise? This might be one of the key factors preventing some countries from undertaking privatisation of state-owned enterprises. The indigenous people who are the preferred candidates to take control of these parastatals are financially unable to buy significant shares, but if these shares were divided into a maximum value of $100 to $400, substantial shares could be bought by indigenous Investors. In summary, prior to privatisation, it is necessary to liberalise the economy and create a competitive environment which is expected to lead to efficiency.

Privatisation and Private Sector Development in Zimbabwe

The evolution of the private sector in Zimbabwe dates back to the 1890s when the sale of land to private individuals and companies was on a wider scale. Thus the private sector existed in Zimbabwe before and after independence.

Public enterprise, therefore, has always operated in parallel with the private sector

in Zimbabwe. The private activities are found in the manufacturing, mining, agriculture and commercial sectors.

In the policy document, "Zimbabwe: A Framework for Economic Reforms (1991-95)", the Government enunciated the reduction of subsidies and deregulation of prices. In addition, the legal framework was to be adjusted to reduce government intervention in the running of parastatals, transferring the responsibility to the Board of Directors. Thus, parastatals such as NRZ, ZISCO, Air Zimbabwe, PTC are to be commercialised. This has allowed parastatals to set prices that reflect the cost of production. As a result, prices have increased and some parastatals such as

ZESA have registered some profits. But the increase in prices alone is not expected to lead to more efficiency gains.

It is often argued that competition is expected to lead to more efficiency in that companies that do not operate efficiently will be forced to close down in a competitive environment. Thus, in parallel with the transfer of parastatal shares to private hands a policy that allows private sector to invest in any industry will subsequently lead to privatisation.

For example, the commuter transport sector in Harare presented a problem in the past years. But the introduction of competition in this sector has improved transportation. Zimbabwe United Passenger Company (ZUPCO) had a monopoly in the commuter sector and efficiency was sacrificed, and thereby leading to poor services. The privatisation of the sector has improved the commuter services in Harare and Bulawayo.

Methods of Privatisation

Privatisation is perceived generally to imply a sale (transfer) of state-owned enterprises to the private sector. Since the majority of indigenous Zimbabweans experience problems of funding, a sale of parastatal assets might lead to foreign ownership. It is argued that a trust fund that will enable indigenous people to borrow and purchase, in part or in full, is likely to lead to successful privatisation. The initial source of such funds could be provided by donors.

But it could be argued that competition and efficiency should be an integral part of privatisation. If the private sector is allowed to invest in monopoly-dominated sectors, the benefits of privatisation could be achieved without changes of ownership of the existing SOEs. Inefficient companies are expected to close down in a competitive environment.

Finally, privatising the management of state activities through contracts and leases

could lead to efficiency gains.

Conclusion

In this chapter we have attempted to explain the benefit and cost of privatisation with emphasis on the Zimbabwe economy. In general, the Zimbabwe economy has experienced difficulty in the last decade in responding to external shocks and this has led to the deterioration of macro-economic variables such as exchange rates and the current account balance of payments. This might have persuaded the Government to adopt alternative strategies in dealing with economic growth and increasing unemployment. The Structural Adjustment Programme, which in most countries entails a move toward a market-oriented economy and privatisation, could be applicable in the case of Zimbabwe. Although Zimbabwe has always encouraged private sector development, the transfer of state-owned enterprises to private ownership has not yet started. It could therefore be argued that Zimbabwe's preferred policy has been to commercialise state-owned enterprises.

24

HALF-WAY TO PRIVATISATION: PROFITABILITY IN STATE ENTERPRISE

David B. Jones

Most African countries have a collection of large unprofitable nationalised enterprises or parastatals. Some are inherited from pre-colonial days. Others are based on pre-independence private firms that were nationalised in order to put control in local hands and keep profits in the country. Yet others were established after independence to fill gaps in the economic structure. Irrespective of origin, the financial performance of these public enterprises has, with a few notable exceptions, been very disappointing. They have soaked up subsidies, year on year, and still tottered on the edge of insolvency. Their payrolls have grown as their turnover has shrunk. They have been outflanked by private sector competition even in cases where they had legal monopolies, and where the private sector had to bear the heavy extra costs of illegality.

It is no wonder, therefore, that there has been increasing discussion of privatisation of such enterprises, even in countries that are ideologically opposed to capitalism. Privatisation is not a panacea, and is sometimes quite impractical, or unpolitic. Concern about concentration of power and ownership in private hands and the emergence of inherited influence is legitimate. It is therefore wise to consider why private firms appear to be more efficient than public enterprises, and whether similar principles can be incorporated in public enterprises. For it is clear that being private does not itself create efficiency and this will be illustrated by a case study of a national grain marketing board simply described as the GMB.

There are several fairly obvious reasons why private firms should perform better than public enterprises. A short list of these would be along the following lines:

(a) Private firms are subject to competition.

(b) Those ultimately responsible for management decisions in a private firm have direct interest in its profitability and productivity.

(c) The market makes private firms meet rate of return criteria.

(d) Private firms have professional managers.

(e) Private firms have more continuity of top-level staff.

(f) Private firms are not subject to political interference.

(g) Private firms do not have to subordinate profitability to public goals.

(h) Private firms can raise cash easily on the market to finance new profitable opportunities.

(i) Private firms have greater liberty to enter into collaborative arrangements with big multinationals or foreign firms that give them access to new technologies and markets.

None of these advantages is really out of the question for public enterprises; some of the converse disadvantages can apply to private firms. They too can lack competition, be subject to political interference, be unable to enter into collaborative business deals freely, etc.

Thus, when we look at the explanation (a) above, we should realise that the key factor is often de-control of competition, and that when people talk of the advantages of privatisation, they often have in mind the advantages of de-control. In reality, these are two different things. In Africa, central government control – of prices, raw material purchase, produce sales, exports, imports and, employment, etc. – is a pervasive habit, even for the private sector. The conventional excuses for this, that large-scale is necessary for viability etc, are generally overstated. There is really no good reason why most public enterprises should not be opened up to competition from both local and foreign enterprises through decontrol in most of these areas. This can be done gradually. A corollary is to ensure that the public enterprise does not labour under systematic handicaps that make it unviable.

The GMB was subject to limited competition from local private firms and traders, and for export markets, but it was subjected to some serious systematic handicaps. It was, for example, obliged to purchase locally at official minimum prices, whereas its competitors were free to purchase cereal products from a neighbouring country which had lower grain prices and a milling subsidy; yet GMB had to sell on the same market as the competitors. The fact that the GMB could operate at all in these circumstances demonstrates that private firms are not as superhuman as is sometimes supposed.

A more complex liability was the GMB's obligation to sell and purchase at the same prices in all regions of the country ('pan-territorial pricing'). This is a common practice, based on the assumption that it is 'equitable', but it has a number of very undesirable consequences. For instance, the costs of supplying food deficit areas are much greater than those of supplying food surplus areas, so a mark-up (margin between sale and purchase price) tends to be set which is more than adequate for the surplus areas, but inadequate for the deficit areas. If private traders are not subject to the same prices, they just take the whole of profitable food-surplus area markets, leaving the state enterprise to supply the loss-making deficit areas. It is no use telling the private trader to do otherwise. He may nominally set the same nationwide prices, but it is practically impossible to force him to supply deficit areas at a loss to himself. The effect of such pan-territorial pricing on production is even more undesirable. It encourages food deficit areas to import food, even when it would be cheaper to produce it locally at a higher price, because the cost of transportation from the surplus area is borne by the public enterprise – or more commonly by the taxpayer. Yet surprisingly, little research is done to find out whether this economically perverse pricing behaviour actually does increase overall equity, even to consumers. In fact, one frequently finds that in remote areas some cost – e.g. of heavy manufactures – are very much higher than in the metropolis, but other costs – for instance of food, housing, fuel – are much lower. The inequities of life in 'remote' areas have more to do with the provision of services than the costs of living, and are not necessarily best corrected by an arbitrary subsidy on certain consumer items.

In such situations, it is fairly easy to see how to put competition between a public enterprise and private firms on more equal terms. Wherever possible, however, one should resist the temptation to do this by imposing the same obstacles to economic rationality on private firms as exist for public ones !

The second arrangement I have listed (b) concerns the fact that those ultimately responsible for decisions in public enterprises have no direct economic interest in profitability and efficiency. This is not inherent. The state as primary shareholder is never going to behave in exactly the same way as a body of private shareholders, but direct incentives can quite legitimately be given to publicly appointed board of directors. Unfortunately, all too often the 'perks' given to directors in public enterprises are directly antagonistic to efficiency. Because it is considered unethical to give them a share of profits, they are rewarded with privileged access, or under-the-counter sales, and often have a far greater personal interest in manipulating prices or access for their own benefits as – often quite minor – sellers to, or customers of the enterprise, than in its profitability. This makes very little sense.

Much has been achieved, but at the cost of having external investors represented on some public enterprise boards. I think in particular of two relative success stories: the Kenya Tea Development Authority, and the Botswana Meat Commission - both of which have had the Commonwealth Development Corporation represented on their boards. Even a minority of a board, backed by a minority financial interest, thus seems to make a significant difference to managerial behaviour.

It is also perfectly legitimate to reward lower level managerial staff for economic performance, as is often done in private firms. A frequent obstacle to this is the fact that accounts are not set up to show whether a particular management unit is profitable or not. The GMB, for example, included a packing plant, a grain mill, and about ten depots, all operating as different management units, and all designated in the accounting system as 'cost centres', yet there was no system for working out the 'profitability' of the individual management units or their contribution to the profitability of the enterprise as a whole, so it was impossible to remunerate managers at all for good performance. Indeed, under such circumstances the cost centre manager had no way of knowing whether a particular course of action was profit-generating or loss-making, and the enterprise as a whole was unaware which of its management units (or product lines) were contributing losses and which were contributing profits. A first step in promoting or rewarding efficient management is to be able to recognise it. My experience suggests that the GMB was by no means alone in its failure to do this - in fact it was probably relatively progressive in its branch accounting methods.

If basic accounting systems are sound it is quite a simple matter to devise procedures which demonstrate which costs centres are contributing to group profitability. In the case of GMB, I found that only two depots were actually making profits, but that a small number of other permanent depots were justified in order to maintain those profits. The loss-making character of the remainder was not invariably chronic, and the examination of cost-centre profitability revealed a number of factors that could increase profitability. One was getting rid of pan-territorial pricing. The other, which I think is sufficiently common to be worth mentioning as a general example, was the need to introduce greater flexibility in staffing, and substitute parts of the permanent branch structure.

The reason for this is that in grain trading in a largely subsistence economy, the activity of different depots varies tremendously through the year, and from one year to another. The natural tendency of civil servants setting up a new structure was to establish a network of local depots functioning for only about 10 per cent of the time, so that instead of operating depots with full-time staff, it would have been much cheaper to have run temporary depots out of trailers or tents, without permanent storage facilities. In many areas an even cheaper option was to use

agents – co-operatives or private storekeepers – whose presence was sustained by other activities when grain trading was at a low ebb.

These profitability factors relate to point (c) in my list – the absence of rate of return criteria. Again one has to say that it is quite feasible to impose more meaningful rate of return criteria on public enterprise than on private firms with various sources of capitalization. This is now standard practice, for example, in the U.K. What one cannot do is impose rate of return criteria on the one hand, and simultaneously operate price control based on entirely different criteria. A choice has to be made. I would suggest that in general the best answer is to use competition – both internally and with external producers – to keep prices down. And I should note that competition with external producers is really only feasible with realistic exchange rates.

My points (d) and (e), and to some extent (f) all relate to the quality of management. Since the anonymity of my example may break down, I have to say that they were not such important problems in the GMB as they seem to be in other developing countries public enterprises I have come across. The habit of using senior management positions in public enterprises as rewards or retirement slots for civil servants (or politicians), taken together with an absence of performance standards, and with remuneration practices which exclude rewards for good commercial performance, is bound to have disastrous results on management quality.

The question we have to ask, however, is whether these practices are automatic and inevitable consequences of having large public enterprise in African developing countries. The diagnosis permits at least certain ameliorative measures. We should probably focus more on training, performance and reward systems than on the quality of the individual managers. It is a fair assumption that many senior civil servants reached the top because they had unusually good administrative skills, and that their ranks include a reasonable proportion of potentially good managers. However, their management experience has been aimed at a completely different set of targets from those appropriate to managers of enterprise. If we want to tap their conventional ways of doing this include training, objective-setting, information systems which show whether objectives are being achieved, and appropriate incentives. Why not try the obvious?

I suspect that such measures would also help to get rid of the really hopeless managers. In Kenya, for example, one occasionally sees newspaper articles saying the company XYZ is in a mess, it is making losses and is failing to pay suppliers. Such reports, incidentally, are often sparked off by parliamentary debate. When this happens, we know that there is likely to be a change of management fairly soon. Clearer targets and public performance review might speed this process.

The continual reshuffling of public enterprises heads – my point (e) clearly aggravates management problems. When a general manager has an average tenure of about one year, he does not have time to learn about his company, let alone achieve anything in it, and there is no basis for evaluating his performance or rewarding it. I suspect such reshuffles are in part a carry-over from similar practices in the civil service, where they do very much less harm. This is, however, also a part of the general problem of political interference (my point (f)).

One must say that taking policies out of public enterprises is about as feasible as taking greed out of capitalism. However uneasy we may feel about its manifestations, it is an integral part of the system, and when a decision is taken at a political level, political factors necessarily come into play. As the history of the National Coal Board shows, this is as true of a British Conservative Government as of any country in sub-Saharan African.

Of course what we are worried about is not politics itself, which in the long-run has to do with satisfying the whole community, but actions that achieve short-term political gains with long-term political costs. The most satisfactory long-term solution to these problems are therefore themselves political. Leaving aside such general remedies, however, it appears that economic objectives have a better chance of winning out over short-term political objectives if there is substantial risk-bearing financial participation by external financial or business interests, as in the cases I quoted earlier. There is, of course, a political as well as a financial cost to such participation, and the question may well be asked, why a political leadership, should ever choose to hobble itself in this way. The simple answer, I think, is that many political leadership do not welcome the pressures on themselves to do foolish short-term things, and do in fact consent to hobble themselves in a variety of ways.

The line between political goals and public goals (point (g) on my list) is a fine one. Many public enterprises have, however, been set up with the explicit aim of achieving a mixture of objectives. In the case of GMB, it was initially set up in a hurry to deal with an isolated bumper harvest and was given the duty of providing a permanent marketing channel for such eventualities while covering its costs. To this duty were added those of holding a contingency reserve of grain, and of purchasing grain at statutory prices designed to protect domestic producers. All these were legitimate public policy objectives, but were hard to reconcile with the GMB's commercial obligation to compete with private traders and survive. It does not make much sense to enter in a race a horse that wears a hobble, pulls a cart with square wheels and has to run backwards!

One answer to this would have been to declare the whole of GMB a non-commercial operation, and to take away from it its duty to cover costs. This,

however, does away with the performance problem by decree, without ever solving it. Another solution, which thankfully was not attempted in the country I was studying, but which has been elsewhere, would have been to institute a legal monopoly, and thus ensure that prices could be set at any level necessary in order to cover costs.

A better solution than these was adopted, which was to examine the non-commercial obligations, determine which of them really were inherently non-commercial, and devise ways of covering their costs which did not interfere with commercial motivations. This approach usually involves raising taxes or cesses on the whole industry, and tends to be avoided for that reason, but the problem of paying for a non-commercial obligation is not met any more satisfactorily by attempting to hide it in the accounts of an unviable enterprise; far less though hiding it a state monopoly.

In the case of GMB, the obligation to buy (and sell) grain countrywide could be achieved without commercial loss by scrapping pan-territorial pricing, creating a network of agents, and making the buying and selling system more 'collapsible'. The obligation to protect farmers by acting as a grain buyer of last resort (at a higher price than prevailed in a neighbouring country) might quite equitably have been solved by instituting a customs duty on all imports. For a variety of legal and administrative reasons, however, it was in fact handled by direct subsidies to the GMB – a solution that restricts the protective margin, and requires continual monitoring of internal and external prices. The costs associated with the continency stock were also handled by direct subsidy. This made economic as well as political sense. As the largest grain handler in the country, the GMB could in fact hold stocks more cheaply than any other organisation. Moreover, because of its obligation to hold stocks, it had already constructed storage capacity well in excess of normal commercial requirements. The Government therefore paid the capital service costs of the otherwise redundant capacity, bought grain to fill it, and paid a service charge to the GMB.

The two last points on my list – (h) and (i) – really belong to the 'decontrol' agenda. There is no good reason for denying public enterprises access to private capital markets to finance profitable expansion, or to commercial contracts with private firms. Access to capital markets tends to be denied because public enterprises are expected to use their investment programmes to implement government policies on money supply and borrowing. This again puts a serious non-commercial burden on public enterprises, and gives them an undesirable rationale to claim access to subsidised public sector loan funds. It really makes much more sense to try and deal with the whole enterprise sector, public and private, with a single set of instruments. Nor, conversely is it necessarily a good practice for governments to guarantee loans to the public sector and pass the loan

discount it thus obtains on the borrower. This is attractive because it reduces the cost of borrowing, but it is achieved by the government assuming a risk which would otherwise be assumed by the lender and paid for by the borrower. Bearing risk is not a costless activity, and involvement of lenders in risk is probably an excellent thing, and much more effective than transferring the risk to a government department, which itself bears no risk.

I will conclude where I started. That although African states have a very poor record with public enterprise, and although their political structure may mitigate against efficient management practices, privatisation *per se* does not lead to efficiency. Decontrol is probably a more important principle than privatisation; and many of the supposed positive attributes of privatisation can be given to public enterprises. Radical changes in practices would be needed. They are, nonetheless, fairly obvious and commonsense measures, and are far less radical than the decision to privatise – which virtually amounts to a declaration that 'we are politically incapable of taking the right decisions'. Before making such a declaration, why not try taking some of the right decisions? At least for those enterprises which are least suited to privatisation, we need to be aware that there are some alternative half-way houses.

25

SUMMARY OF KEY ISSUES

Olu Fadahunsi

This chapter summarises some of the key issues discussed in the book. Each chapter is presented separately to bring out the thrust of the contributor's argument and provide an outline of the discussion. It is only a summary, and as such, it gives the reader a bird's eye view of the book to facilitate a better understanding of the issues covered.

The summary is presented in three sections. Section One covers the African development strategy, highlighting the nature and the role of the public and private sectors, and the challenges facing them. The discussions make a special reference to the Lagos Plan of Action, providing an outline of the implementation problems faced by the Plan. These discussions are crucial to an understanding of privatisation which relies on a vibrant private sector. Section Two focuses on Public Enterprise Performance and presents a comprehensive picture of the challenges facing the sub-sector. It is generally accepted that the poor performance of the PEs and the unrestrained growth of the public sector were critical factors in the decision to privatise or commercialise the PEs. These factors should be uppermost in our minds in order to put the discussions on privatisation in their proper perspective. There is today a general tendency to push aside these factors that have brought, at least in part, a call for privatisation of PEs in African countries. In five chapters, a catalogue of these factors are discussed and the problems analysed. If we accept that a sizeable number of PEs will still remain, for whatever reasons, in the public domain, it is important to note the suggestions proposed by the contributors to this section.

In Section Three of the book, ten privatisation and commercialisation case studies are discussed after an opening chapter that reviews the status of privatisation in several developing and developed countries, with particular emphasis on sub-Saharan Africa. These case studies give detailed accounts of the planning process, the implementation framework and the strategies of privatisation and commercialisation programmes in the various countries; the problems facing the programmes are reviewed and suggestions to move the programmes forward are offered.

Section One: An Overview of Public and Private Enterprises in Africa

The first two chapters of the book by Peter Efange and George Mbowe provide basic information on the nature of the African economy and the development strategies employed by selected African countries. Both contributors emphasise the role of public enterprises and the private sector in promoting national economic development and stimulating regional economic co-operation, highlighting the challenges posed by the Lagos Plan of Action. The other three contributors to this section, G E A Lardner, Udo Udo-Aka and I. D. Ewen-Tohma, also provide useful information which will enable the reader to gain deeper insight into the whole spectrum of the private and public sectors in Africa.

Peter Efange identifies external and internal constraints to effective public enterprise performance: the current world economic situation, including the pace of technological revolution, fall in commodity prices, a heavy debt burden, proliferation of public enterprises and attendant managerial problems. He explains that private enterprises in Africa are either indigenous, foreign-owned, a mix of foreign companies and the public sector or joint ventures between foreign companies and indigenous private companies, observing that a remarkable feature of African indigenous entrepreneurship was its extreme fragmentation, a deep mistrust and suspicion among African businessmen. Peter sees both the public and private sectors as complementing each other and it is government's prime responsibility to foster the growth of indigenous entrepreneurship in both sectors. He then focuses on the Lagos Plan of Action launched in April 1980 at a special summit of African Heads of States and Government, and examines the Plan's aspirations in Agriculture, Industry, Trade, Finance, and Transport. He concludes by posing five pertinent questions that could help us understand the eventual contributions of the Plan to an overall development of the African economy with a warning: "Excessive state control of the means of privatisation and distribution retards the growth of entrepreneurship" and, one may add, such control kills the spirit of competition.

George Mbowe sees African economies as having the following characteristics: predominantly public, predominantly private, predominantly mixed and predominantly foreign-controlled. The predominant types vary from country to country due to such factors as: the level of technological transformation, the influence of public policy and ideological orientation, and historical and cultural transformation of the populace. All African governments practise a "mixed economy" assigning responsibilities to both public and private sectors, but what would be assigned to each sector is the prerogative of each country. George then lists the objectives of the Lagos Plan of Action and undertakes an inventory of anticipated investments in the various sectors. He also summarises the investment

opportunities in the Plan touching, for instance, on local raw materials processing, food products, the formation of joint ventures, suggesting that the economic journey towards the fulfilment of the Plan makes the development of joint ventures inevitable in all African countries. He then lists 14 issues and problems facing entrepreneurs of both sectors, including a lack of clearly articulated investment policies with respect to the priority industries in the Lagos Plan of Action; failure to indicate in the national strategy, economic measures and their direction for implementing the Plan; peripheral communication between public and private entrepreneurs and the government in most African countries; lack of financing; uneasy external support; lack of technical information and so on.

To ensure effective implementation of the Plan, George proposes nine measures in the area of Public Sector Enterprises, eight in Private Sector Enterprises and three in Private Foreign Enterprises, concluding that "in a competitive world economy, it is in the national interest that the public and private sectors become mutually reinforcing and complementary and should act in concert in the pursuit of development goals and targets".

G E A Lardner in "Measures for Enhancing the Performances of Public and Private Enterprises" sees much of the debate about public and private enterprise in African countries as unreal and regards the basis for passing judgement on the performance of both the public and private sectors as either misconceived or as external models which are not applicable to the African conditions. He examines the importance of the entrepreneurial function in Africa from both the qualitative and quantitative viewpoint, and concludes that African policy-makers and planners have no alternative but to concentrate attention on promoting the development and expansion of African entrepreneurship, both public and private. The first great step towards this achievement is to adopt a new approach to policy-making and planning, including adopting a long range planning approach of twenty to thirty years' perspective of national development and economic growth which would give priority to planning, programming and resource generation and allocation to the CORE or motor which should drive the economy forward.

Lardner also discusses practical measures to enhance PE performance and to improve private indigenous enterprises, concluding with the subject matter of incentives, especially in the farming sectors where there is a confusion between the significance of monetary and non-monetary incentives.

Udo Udo-Aka in Chapter Four, "Ownership Patterns and PE Performance", believes that joint ventures play a major role in facilitating the flow of resources. He cites twelve reasons for embarking on joint ventures, including secure access to foreign markets, maximise net capital flows, secure local manpower, reduce risk of expropriation etc. He suggests that venture idea could be initiated by:

(i) government, either host country or foreign country;

(ii) private investor, either local or foreign; and

(iii) external impetus.

Udo then raises the question of nationality of joint venture partners and suggests that the impact of the nationality of the parent company on decision-making in overseas operations was gaining increasing research interest. He cites the Nigerian example, quoting a national newspaper to raise the thorny questions as the debate on privatisation began:

(a) Who are in a position to buy these shares once the assets are up for grabs?

(b) Will the nation be better off for it?

(c) What effect will this have on the provision of welfare-related services?

For joint venture to achieve the mutual objectives of the owners, Udo-Aka suggests that the partners must develop mutual trust, act in complete good faith and treat each other as equal.

Ewen-Tohma in his contribution focuses on the development, objectives and problems of public utility and private enterprises. He proposes various measures to enhance the performance of both sectors in choosing adequate capitalisation, provision of adequate working capital, corporate planning, provision of adequate foreign exchange facilities to the private sector, and improved managerial expertise. He concludes by suggesting that political interference, especially in the appointments and procurement in the public utilities, must stop so as to promote efficient management as in the private sector.

The last two chapters in this section by Ibbo Mandaza and Suleyman Fye also touch on the objectives of PEs but concentrate on the working conditions and motivations with Suleyman using The Gambia as a case study. Both contributors suggested that suitably designed training and an appropriate reward system will stimulate workers' interest and increase their productivity.

Section Two: Public Enterprise Performance

In this section, the contributors provide detailed information on the performance of public enterprises in Africa. A good understanding of the status of public enterprises is a prerequisite to an intelligent discussion of privatisation and

commercialisation; the section therefore sets out the background against which the privatisation discussions should be conducted.

Jide Balogun in "The Performance of State Capitalists and State Capitalization: An Inquiry into the Conditions of PEs in Africa" reminds us that AAPAM, as far back as Dec. 1973, had concerned itself with the developments in the public enterprise sector. But resolutions passed to bring about an improvement of the sector were generally ignored by the authorities. He starts with a discussion of the role of PEs in national development noting first, that both private and public sectors have a role to play in the development of African economies, and second, that while African countries should resist the temptation to "privatise" or "de-nationalise" the strategic sectors of their economies, each country should ensure that the public sector did not over-extend itself.

Jide provides data to show that the public enterprise sector in Africa is a big employer of labour noting that the soaring wage bill is only an indication of the expanding role of PEs. He examined the arguments for an enlarged public enterprise sector and concluded that the search for a pareto-optimal position (by proponents of state intervention) could probably justify intervention in areas such as banking, insurance, petroleum exploration, civil aviation and even sports and culture, but questioned whether such an argument could justify indiscriminate and purposeless inauguration of state enterprises.

Presenting the case for privatisation, Jide cites various data to show the abysmal performance of the public sector organisations and what he calls the "failure of state capitalism". He then catalogues the problems of PEs and proposes a seven-point programme to turn around the PEs, including definition of the optimum scope or boundary of state capitalism; specification of objectives; establishment of performance indicators; and development of internal control and reforming mechanisms.

In chapter seven dealing with "Financial Profitability and Losses in PEs", M Aboud discusses in a systematic way, the main causes of the poor performance of PEs and suggests that the problem is not merely economic but also one of policies and sociology. Using his vast experience, Aboud analyses the reasons for poor performance: excessive control and political interference; inefficiency and mismanagement; priority and preference being given by governments to goals other than profitability; need for certain enterprises, such as national airlines, to continue operation profits or no profits; and ignorance and misconception about the role of profits among the electorate and even among political leaders. Other factors cited were absence of clearly defined goals and objectives for the enterprise; vague and imprecise specification of the duties and power of the ministry and the governing board, blurring responsibilities and accountability of the

ministry and the governing board; governing board members' dependence on ministerial goodwill leading to insecurity and lack of freedom for action; and ministerial tendency to operate behind the scenes through "lunch club" type directives to the Board.

Aboud offered copious suggestions to strengthen the financial and managerial maladies facing the PEs and summed it all up in the statement "...if PEs are to fulfill their role in economic development, there should be a firm conviction and commitment to the concept of profitability at all levels, particularly at the political level...".

Mary Shirley in chapter eight identifies two reasons for government's growing concern over PEs' performance: large budgetary claims and growing indebtedness of SOEs, and consistently low return on investment. She discusses efforts directed towards an enhancement of SOE efficiency including:

- setting clear and attainable objectives linked to performance criteria;
- achieving control while reducing undue interference;
- holding managers accountable for resources;
- designing managerial incentives and developing a cadre of managers with appropriate skills;
- liquidation or divestiture of non-viable SOEs.

Following a discussion on each of these points, she proposes a five-point agenda for reform which she believes is feasible, if there is a political will. She also cautiones that a piecemeal approach to solve PE problems is unlikely to achieve the desired results because the factors are inter-related. She concludes by suggesting that the development of a framework to guide SOEs towards efficiency is a lengthy complex process which requires commitment, persistence and flexibility on the past of the state authorities and enterprise management.

Wamalwa argues in chapter nine that the future of PEs in Africa lies in maintaining a proper balance between autonomy and control, suggesting that what African countries needs is a self-funding, self-management and self-regulating traditions of PEs which should be able to maintain minimum standards of efficiency, political accountability and service to the public. He identifies a four-fold classification scheme used in the early days of PE establishment and discusses other types of classification – by area of activities and by ownership, observing that PE problems

tend to be compounded by the fact that several "owners" and/or their representatives seek to exercise control simultaneously.

Wamalwa then summarises various forms of external control of PEs, including legislative control, ministerial/political control, Treasury control, External Audit and other miscellaneous controls such as those exercised by governments through remuneration packages and personnel decisions. He advises that balancing control with autonomy in PEs would be improved through a clear articulation of the objectives, selection of competent personnel to run the boards and manage the enterprises, installation of sound results-oriented management systems, improved financial and accounting system, a strengthening of the internal audit with an in-built Early Warning System and a forum for resolving conflicts between government and the PEs.

A review of the organisational factors affecting PE performance is undertaken by Solomon Kagwe in chapter ten. He explains that PEs are perceived in Africa as agencies for enhancing indigenous participation in commerce and industry as well as a means for enabling the state to participate in distributing activities in the interests of national social justice and welfare. Key factors identified include: poor performance, imposed management technique, absence of operating objectives, the question of autonomy and control, poor personnel policies and financial management. Solomon then concludes by suggesting that it is necessary to develop the capacity to monitor and evaluate PEs, and to develop indigenous research capacity because a great deal of research findings are buried in inaccessible or foreign documents where such research was conducted.

Section Three: Privatisation and Commercialisation Case Studies

Following Paul Cook's and Colin Kirkpatrick's opening chapter, this section presents ten case studies from Ghana, Zambia, Nigeria, Uganda, Tanzania, The Gambia, Kenya, Sierra Leone, Zimbabwe, and a company called GMB. It is important to observe that these case studies were prepared by individuals who were directly involved in managing the privatisation programmes in their countries and their detailed analysis of the policy formulation and implementation processes and the challenges facing those countries have been a major contribution to an understanding of the subject matter.

Paul and Colin summarise the basic arguments which led to the introduction of the Structural Adjustment Programmes in Sub-Saharan Africa and observe that, on average, the performance of non-loan countries has been superior to that of loan countries in terms of both GDP growth and export performance. They point out that the explanation for the poor record of structural adjustment policy reform was

sought in terms of policy design failures and as such solutions were sought in better design and co-ordination of the economic policy reform process. Paul and Colin also observe that the role of government in economic management and the capacity to know when and how to intervene could explain the disappointing results of the economic reform process stating, however, that the goal of private sector development cannot be achieved simply by withdrawal of the state from the economic sector.

The contributors argue that in sub-Saharan Africa, privatisation is highly concentrated in a few countries, adding that six countries account for two-thirds of the divestiture. Quoting from recent World Bank sources, they provide information in respect of twenty-eight African countries, showing the percentage of enterprises divested and the total number of enterprises before divestiture. They then explain why it is difficult to assess privatisation performance and cite the World Bank effort at providing a general assessment of international privatisation. The World Bank assessment is also balanced with other research findings in selected African countries.

The remaining part of this chapter reviews the extent and pattern of privatisation in several countries and regions of the U.K., Canada, Japan, Eastern European countries, South America, the Caribbean, and Africa. It also discusses various approaches that are being adopted in the countries, highlighting the main issues in terms of ownership pattern and sectoral allocations. For instance, the main distinguishing characteristics in the sectoral composition of privatisation in sub-Saharan Africa is the absence of infrastructure in their privatisation programmes. Industry and services account for most asset sales between 1988-1992 as compared with South America where infrastructures account for around 35 per cent and financial services another 30 per cent - which represents about the global pressure???. Other key issues discussed in connection with the management of privatization include: selection of appropriate method of privatisation, transparency in policy, awareness of employment and social impact, establishing privatization, and regulation and competition policy. The chapter concluded by observing that successful privatisation would depend on, inter alia, "an institutional capacity assessment and evaluation of privatisation" which they acknowledged was difficult to accomplish.

The case study on Ghana privatisation scheme within the country's PE Reform programme by Willie Adda starts with a brief review of the development of the PE sector and the circumstances which prompted the Government to commit itself to the programme from the mid-1980s. Government undertook a comprehensive diagnostic survey of the SOE sector which resulted in the Economic Recovery Programme of 1983. Using these studies as a basis, a Government Task Force formulated a comprehensive SOE reform programme which was formalised in 1987

with the establishment of the State Enterprises Commission law (PNDCL170). The policy objectives of the programme are to:

- improve the efficiency of the economy by encouraging private sector participation and investment;
- develop a domestic capital market;
- motivate the private sector;
- reduce the fiscal deficit;
- raise foreign exchange.

Adda analyses the performance through mid-1993 and concludes that the programme had not realised the objectives set in 1987 and that the momentum had slowed down. The measures taken from the first quarter of 1994, including the sale of a portion of government equity in Ashanti Goldfields Corporation had increased the privatisation pace. He highlights key problems currently facing the programme, including a lack of a comprehensive strategy for privatisation, transparency and financial costs of labour rationalisation, and concludes with some suggestions on the priorities for strengthening the capacity of training institutions in support of PE reform and privatisation.

The case study on Zambia's privatisation programme, prepared by E. C. Kaunga, starts with a detailed explanation of the reasons behind the state involvement in the public enterprise sector and the evolution of Zambia's key public enterprises. He reviews the performances of the PEs, with particular reference to ZIMCO, between 1985 and 1992. ZIMCO, the major holding company was incorporated in 1970 and, following the restructuring exercises of 1979 and 1992, was transformed into an investment holding company, resulting in a downsizing of the manning levels of the company and subsidiary companies from 700 to 180. This exercise undoubtedly prepared the way for the recent dismantling of the conglomerate for privatisation purposes.

Kaunga discusses the progress of the privatisation programme from July 1992 when the Privatisation Act which established the Zambia Privatisation Agency was passed to the recently established Lusaka Stock Exchange and the Privatisation Trust Fund. He identifies three areas that require attention: funding of the privatisation programme; funding of the purchase of companies and the human resource implications, particularly redundancy; and technical skill issues. He concludes by advising the Zambian Government and others not to sacrifice toughness and transparency in quest for speed.

Hamza Zayyad's case study on Nigeria's privatisation and commercialisation programme begins with a discussion on the development of the PE sector and the promulgation of Decree No 25 of 1988 which set up the legal framework and the implementation agency - the Technical Committee on Privatisation and Commercialisation (TCPC), an eleven-member body drawn from the private public sectors and saddled with eleven key functions, including ensuring the overall success of the exercise. He identifies the eight objectives of the programme including the following:

- to restructure and rationalise the public sector in order to lessen the dominance of unproductive investment in the sector;
- to encourage share ownership by Nigerians;
- to re-orientate the enterprises for privatisation and commercialisation towards a new horizon of performance improvement;
- to create a favourable investment climate for both local and foreign investors.

Hamza also explains the difference between privatisation and commercialisation emphasising that a critical component of the latter is Performance Contract. He identifies the five methods of privatisation used by the TCPC as follows: public offer, private placement, sale of assets, management buyout, and deferred public offer, concluding with an analysis of the "journey so far" and the major problems encountered. The Nigerian experience, according to him, points to the fact that it is difficult, if not impossible, for the government in a developing country to completely divest its interest in enterprises.

William Okecho's case study on Uganda's privatisation programme reviews the Government's twin objectives, viz to reduce the direct role of government in the economy and to develop a correspondingly greater role for the private sector. These are contained in the Government's policy statement on PE Reform and Divestiture, issued on 1 November 1991.

A detailed analysis of Uganda's resource capability was undertaken and this revealed a number of problem areas that needed to be attended to if a successful reform programme was to occur. He itemises and analyses these issues emphasising that Uganda's privatisation programme is one policy agenda in the overall Economic Recovery Programme, noting that others like the structural adjustment programme, the Civil Service Reform, Tax Reform, and investment promotion measures like the enactment of the Investment Code 1991, are also of great importance.

William also discusses the efforts made at the national level to minimise the usual problems associated with privatisation and concludes on an optimistic note that failures in the programme are least expected due to detailed preparatory work already done.

Tanzania's PE Reform and privatisation process started in 1985 with the introduction of measures that signalled the end of centralised control systems. These measures, according to George Mbowe who prepared the case study, were introduced in the areas of trade, pricing and exchange rate.

The basic objectives of the reform are four-fold:

(i) to improve both the operational efficiency of the enterprises currently in the parastatal sector and their contributions to national economy;

(ii) reduce the burden of loss making parastatals on the government budget;

(iii) expand the role of the private sector and;

(iv) increase and encourage a wider participation of the people in the running and management of the economy.

George believes that the important question to be tackled in the immediate future is how to privatise rather than what to privatise with a related issue of the speed at which to privatise. He also deals with the work programme of the parastatal reform agency, ownership structure of privatised enterprise, public enterprise debt settlement and labour redundancy concluding with a listing of the major terms of reference of the Presidential Parastatal Sector Reform Commission (PPSRC).

The Gambian case study, prepared by A. M. Touray outlined the key elements of the Economic Recovery programme (ERP), the setting up of the Task Force on Divestiture and Rationalization which submitted nine recommendations, including privatisation and the setting up of the National Investment Board as the privatisation secretariat. He discusses the four categories of PEs to be privatised and the programmes authorisation process. An appendix attached to the case study gives the status of the Gambian privatisation programme.

Muindi case study on Kenya's PE Reform and privatisation summarises the Government's past efforts to improve the performance of the sector, including the formation in 1979 of the Parastatal Advisory Committee and another committee, the Working Party on Public Expenditure in 1982, observing that these piecemeal reform efforts did not yield satisfactory results. Current efforts seek to:

(i) reduce the financial burden of the PE sector on the government;

(ii) enhance the efficiency and performance of the sector; and

(iii) bring about financial discipline, managerial and financial autonomy, appropriate incentives and accountability to enable PEs operate on commercial principles.

The Government also issued policy guidelines on privatisation:

- a privatisation sales will be on a cash only basis, with the possible exception of shares sold to the workforce of the affected firms;
- no specific class of potential purchasers will be excluded;
- all transactions will be conducted in an open and transparent manner consistent with normal standards of commercial discretion.

Muindi explaines the nine methods of privatisation/divestiture and the criteria followed in deciding on a privatisation option. He concludes with a discussion of the institutional arrangements citing the high level policy-making body, the Parastatal Reform Programme Committee (PRPC), and the executing agency, the Executive Secretarial and Technical Unit (ESTU). Parastatals which are to remain in the state control are the responsibility of the Department of Government Investments and Public Enterprises (DGIPE).

Sierra Leone

Alfred Kandeh starts his case study on Sierra Leone privatisation programme with a summary of the political developments in the country since independence in April 1961 to highlight the effect of the frequent political changes on the performance of the public sector including the public enterprise sector. More recent developments occasioned by first, the Liberian civil war and second, the on-going rebellion in Sierra Leone, have resulted in the in-flow of a large number of refugees who drained the resources of the Government. All these and several other adverse factors led to an abysmal performance of most of the country's 46 PEs and the on-going World Bank-sponsored reforms, including the divestiture and privatisation option.

The establishment of the PE Reform and Divestiture Commission (PERDIC) in August 1993 exposed the basic problems facing the country's privatisation programme up to that time. This realisation led to an amendment of the original

privatisation legislation in September 1993 by the PE (Reform) (Amendment) Decree 1993 to empower PERDIC to spread its wings to include enterprises in which government had less than 40 per cent interest and to grant full executive powers to PERDIC to enable it to take decisions on PE Reform without first referring to government.

Alfred explains the detailed work programme on PERDIC since September 1993 and the emerging problems faced by the privatisation exercise.

Zimbabwe

In his introduction to the case study of the Zimbabwe 'privatisation and private sector development', M. N. Sikwila identifies three reasons inhibiting some countries from privatising their PEs:

- privatisation might lead to a drain on much-needed foreign exchange through remittance of dividends;
- since most indigenous would-be investors lack financial resources, the enterprises might all be bought by foreigners;
- inadequate capacity to carry out a successful privatisation exercise.

Sikwila provides some economic data to emphasise heavy financial outflow to the PE sector especially between 1981 and 1993. The declining economic situation led to the adoption of economic reform package in 1990 designed to deregulate most of the markets. The prices and wages were decontrolled and it would appear that some parastatals' outputs improved marginally implying probably that the inefficiencies had been covered by transferring some of the costs to the consumers through high prices. The issue of price deregulation and reduction of subsidies were tackled in the policy document, 'Zimbabwe: A Framework for Economic Reform 1991-95'. The emphasis in this document is to commercialise the major parastatals such as NRZ, ZISCO, Air Zimbabwe, PTC etc.

Senegal

The use of the Contract System to improve the performance of PEs was the thrust of D. A. Aziz case study on Senegal. The private sector was influenced

principally by three factors – the prevalent political stability, existence of a generous investment code and possibility of profit repatriation. He identifies the problems of the PEs and proffers some solutions including: recruitment of competent managers, introduction of a new management technique (MBO) and establishment of programmes assistance to the parastatal sector, e.g. training.

The introduction of Contract Plan by the Government has been helpful to the public enterprises and Aziz concludes by commending its adoption to other African countries.

David Jones in "Half-Way to Privatisation: Profitability in State Enterprise" offers nine reasons why private enterprises should perform better than public enterprises, observing that none of the advantages he enumerates should be out of the question for PEs and that some of the handicaps often ascribed to PEs also affect private firms, including political interference and free entry into collaborative business deals.

David then focuses on the GMB company to discuss each of the nine points, concluding that although African states had a very poor record with public enterprises and although their political structure might mitigate against efficient management practices, privatisation *per se* would not lead to efficiency. He advises that, at least for those enterprises which were least suited to privatisation, governments should be aware of some alternative half-way houses.

Concluding Remarks

Privatisation has been accepted for various reasons in both developing and developed countries but many African countries still need to consider very carefully how far they should follow the privatisation bandwagon. Undoubtedly, the problems of the public enterprise sector and the over-bloated public service in many countries call for policy options that should encourage the private sector to play a key role in socio-economic development and which should reduce considerably the size of the public sector. How far a government should go in facing up to the challenges can only be decided by them. Hopefully, the various suggestions in this chapter will assist governments in making the right choices.