THE ROLE OF PUBLIC ENTERPRISES IN DEVELOPMENT IN EASTERN AFRICA

Proceedings of a Workshop Organised by
the Institute for Development Studies
University of Nairobi, 4-7 November, 1980
with Financial Assistance from the
The Friedrich Ebert Foundation

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OCCASIONAL PAPER NO. 39

INSTITUTE FOR DEVELOPMENT STUDIES
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NAIROBI, KENYA

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IN EASTERN AFRICA

PAPER PRESENTED AT A CONFERENCE HELD AT THE
INSTITUTE FOR DEVELOPMENT STUDIES
UNIVERSITY OF NAIROBI
4 - 7 NOVEMBER, 1980

ABSTRACT

The Papers presented here were prepared for a Conference on The Role of Public Enterprises in Development in Eastern Africa, held at the Institute for Development Studies from 4 - 7 November 1980. The purpose of the Conference was to make an assessment of the research done so far in the field in Eastern Africa, to analyse and compare the role of public enterprises and their problem in the countries of Eastern Africa and to give the participating researches some orientation for their further research and bring activities.

The Conference outlined background, Powers and Objectives of Male participation and focussed on the analysis of constructions of public enterprises to economic development. Other section of the Conference dealt with the control aspect and the autonomy of public enterprises and work analyses for an improved performance. The participants were mainly researches from Kenya, Uganda, Tanzania and Ethiopia, but also from local officials and managers from public enterprises working in Kenya.

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THE ROLE OF PUBLIC ENTERPRISES IN DEVELOPMENT
4, NOVEMBER, 1980

By

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Institute for Development Studies
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Ladies and Gentlemen,

I am happy to welcome you on the occasion of our Workshop on the Role of Public Enterprises in Development in Eastern Africa. To those of you coming from other countries, I extend a special welcome to Kenya, the University of Nairobi and to the Institute for Development Studies in particular. We are honoured to have all of you with us today.

The subject of this Workshop is completely in line with the research priorities of the Institute for Development Studies, which is proud to host this Workshop with participants from three neighbouring countries. These priorities are based on the Kenyan Development Plan for the period 1979-1983 and cover Rural and Agricultural Development, Industrialisation, Human Resources and Development, Natural Resource Management and the Environment as main areas for research. Public Enterprises represent an important factor of the economy in all our countries.

Referring to the Kenyan case we can characterise the industrial structure by six major trends:

a) Accumulation has hitherto predominantly followed the pattern of import-substitution (particularly with respect to consumer goods) although in recent years there has been some trend towards agro-based industries.

b) This import-substitution industrialisation has been based upon income distribution and consumption patterns similar to those in existence before independence.

c) Such industrialisation has occurred in the context of the global domination of production, accumulation, trade, product development and technology generation by developed economies.

d) In the absence of sufficient private enterprise and because of the desire to further local ownership in industry (and not because of any ideological commitment), the State has participated heavily in industrial development.

e) Most of the large-scale industrial development has been, and is, heavily dominated by foreign investment. Additionally much of small scale industry is also owned by non-citizens.

f) Development in the service industries has been dominated by increased localisation in the insurance and financial branches, and by the rapid development of tourism.

It is therefore quite reasonable to discuss, on an academic level, how far public enterprises have influenced these trends, and contributed to the development in various areas of the economy and who has benefited from their existence and activities. But in this connection, the main objective of the Workshop will be to learn about the typical role of public enterprises in the various countries in Eastern Africa, discuss their problems, contributions and achievements as a means to promote the national development process.

Since the State has taken up important responsibilities within our economies during this era of industrialisation, its function as an entrepreneur has been controversial and is the subject of criticism and enthusiasm as well. Discussions centre around the necessity and existence of public enterprises as well as a wide range of opinions concerning the extent of controlling or promoting the economy through public enterprises. At the time of independence Kenya inherited a framework of parastatals which we found established in many sectors of the economy and especially in the agricultural sector. Most of these parastatals have had problems concerning their regulatory, developmental or commercial functions and performance. That the government and public are well aware of these problems is shown by the appointment, by the President, of a parastatals Committee which reviewed the statutory boards and published its findings in a report submitted last year. It is expected that the implementation of these recommendations will have a major impact on the future performance and strategies of these enterprises in Kenya.

Furthermore, possibly this Workshop could contribute to a better understanding of possibilities and constraints of public enterprises within the economies of the countries of this region. Different view points and strategies for the role of public enterprises should hopefully be discussed in an open-minded atmosphere during this Workshop so as to bring out alternative approaches. It seems to me that such a comparison of experiences across the borders of our own countries is a noble idea since our countries are more or less in the same stage of development and face similar environmental conditions.

As you probably know, there are in existence various institutions all over the world concerned with research on Public Enterprises or offering specific; training activities. The Boston Public Enterprises Group in the U.S.A., the International Centre for Public Enterprises in Developing Countries in Lubljana, Yugoslavia, and the Eastern and Southern Management Institute in Arusha/Tanzania are only a few examples. The IDS is cooperating with these institutions in order to promote research and mutually beneficial information in this field.

Although the IDS has been involved with different categories of problems related to public enterprises for many years, last year we started a specific project which is focussed on management and organizational aspects of Public. Enterprises. This gives us the chance to discuss the role of public enterprises, their problems and contributions in the Kenyan context. This very timely Workshop is an activity in line with our present research activities and from the kind of papers we have received we can expect that all of us will benefit from the wide range of approaches, opinions and experiences which are documented in these papers.

We are grateful for having as our participants for this Workshop scholars from the University of Addis Ababa, Dar es Salaam, Makerere University and from the University of Nairobi. We appreciate and acknowledge the attendance of representatives of various public enterprises who accepted our invitation for it will be very interesting to get their comments and to share their practical experience with us.

I note from the printed programme of the Workshop that you will start with papers dealing with the political and social environment of public enterprises, then conclude with the problems of relations between government and public enterprises. You will also have a session focusing on various sections of public enterprises' activities within the economy. Problems of financial and internal performance of public enterprises will receive the attention they deserve. In addition to listening to and discussing papers specifically prepared for the Workshop you will have an opportunity to visit Kiambaa Tea Factory, one of more than 20 tea factories associated with the Kenya Tea Development Authority. Apart from providing a break from the confines of this Seminar Room, I trust that you will learn something worthwhile.

I am happy to acknowledge our debt to the FES of West Germany for their financial support towards this Workshop. To the Government of Kenya, we are grateful for their assistance and cooperation including the issuance of the necessary travel documents to our academic colleagues from the neighbouring countries.

Finally, let me repeat my warm welcome to all of you and then proceed to wish you stimulating discussions and the achievement of results which can contribute to further research and an improved role of public enterprises in the development of our countries' economies.

Thank you.

ANALYSIS AND SUMMARY OF THE WORKSHOP

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INTRODUCTION

There are several reasons, which have stimulated the Institute for Development Studies (IDS) to organise a Workshop on Public Enterprises in Development in Eastern Africa. First of all it was observed that the whole sector of Public Enterprises which contributes to a considerable part of the gross domestic product of the country, faces a lot of problems in Kenya and is subject to controversial discussions. It is therefore quite reasonable, that a Research Institution like the IDS should contribute to the analysis of the problems of such an important sector of the national economy. Secondly the Kenya Government, being aware of the difficulties of the Public Enterprises established a Commission to look into the problems of the Public Enterprises which came out with a report in early 1979 whose results it was felt should be discussed at academic levels. Thirdly, there is world wide recognition of the importance of the performance of Public Enterprises and a lot of research and training in this field has been initiated. For the purpose of fruitful co-operation with this trend the IDS, in order to increase its research capacity and its information base, decided to enter into discussions with other researchers of neighbouring countries whose economies and public enterprises face similar problems.

The idea therefore was, to bring together researchers from countries like Kenya, Ethiopia, Tanzania and Uganda for an exchange of ideas about the actual problems of Public Enterprises to compare the various experiences and learn from each other how to set necessary priorities for research training and implementation of practical improvements. In order to receive the necessary feedback within the discussions of the Workshop, representatives of Public Enterprises and Government Officials were invited with the expectation that their contribution to the discussion would lead to more practical solutions and might be the beginning of a necessary dialogue between researchers, trainers and managers and Government Officials about how to improve the contribution of Public Enterprises to national economic development, a dialogue which has been badly missed up to now.

During the Workshop which took four days, 30 participants from Kenya, Ethiopia, Uganda and Tanzania discussed a wide range of problems of Public Enterprises in Eastern Africa. The results of these discussions and the contents of 14 papers presented can be summed up under the following topics:

1) Background, forms, and objectives of state participation in the economy in Eastern Africa

2) Contribution of Public Enterprises to economic development

3) Control and autonomy of Public Enterprises

4) Problems of Public Enterprises performance

5) Strategies for an improved performance of Public Enterprises.

A. Background, forms and objectives of state participation in the economies of Eastern Africa

Public Enterprises were already in existence in Eastern Africa during the colonial times, but were mainly concerned with serving the colonial powers and excluding Africans from industrialisation.

Absence of indigenous capital and commercial knowledge led after independence to a situation whereby the Public Enterprises became the most important instrument of the Governments to promote economic development and to bring the Africans a bigger share in the economy. Public Enterprises therefore were established to compensate the absence of private enterprises and private investments in order to initiate private investment and entrepreneurship of Africans by carrying out risky, capital-intensive projects which were to serve public interests and social benefits. At the same time Public Enterprises were intended to acquire the necessary management skills and to get the necessary participation of foreign capital and management skills as means for the africanisation process.

The reason for establishing Public Enterprises can therefore be seen in the restriction of Africans in industrial participation during the colonial time, in the inability of Private Enterprises to solve urgent development problems and to take over risky projects with small returns, in the provision of the necessary infrastructure for industrial activities and last but not least in financing the national budget (Kinfu). The reasons for the establishment of Public Enterprises are therefore a mixture of political, economical and social objectives (Oyugi).

In some socialist oriented countries, like Ethiopia and Tanzania, the Public Enterprises were promoted mainly for political reasons because they are considered to be important organs for economic decision making. Economically, Public Enterprises were intended to implement specific development priorities and objectives and were established for social reasons in order to contribute to a better distribution of income and for the promotion of regionally underdeveloped areas of the country (Moshi). The reasons for "Government activity are the provision for social goods, adjustment of income distribution and stabilisation of employment, prices and balance of payment which the market mechanism alone may not optimally achieve" (Suruma). This statement indicates the economic role of Public Enterprises in supplementing private industries and carrying out necessary controls in order to achieve; the developmental objectives.

Public Enterprises were established either as a means to shift capital and managerial knowledge from foreigners to Africans and to enable them to achieve political as well as economic independence (Moshi), or they were transferred from private ownership into public hands (nationalised) for the same reason. In addition they were established so that only Public Enterprises and government participation could be trusted with the economic development in the public interest. Be it either a capitalist oriented country (Kenya, Uganda) or a socialist oriented country (Ethiopia, Tanzania) it is generally recognised, that the state has an important role to play in the national economic life, but there are of course many forms of participation which differ from time to time and from country to country.

In the case of Kenya , it was emphasised, that the establishment of Public Enterprises has not achieved the objectives it set out to achieve, that is to serve the public interest. On the contrary, it has been observed, that the existence of Public Enterprises contributes to the promotion of an indigenous capitalistic class which "was educated, had revenue and know-how and above all power and influence which could be translated into economic advantages" (Kinyanjui). Therefore, where the Public Enterprises have contributed to africanisation they have often benefited only a small percentage of the population, which is the elite of the country.

It has been observed in all countries of Eastern Africa, that the number of Public Enterprises has increased since independence. In Tanzania the relative share of parastatal employment increased from 15% in 1967 to 42% in 1974 (Mabele). Whereas there were 10 Government Companies and 35 Boards or Corporations in 1966, there were 8 agricultural parastatals employing 30,540 employees out of 52,365 in the whole agricultural public sector in 1974 (Msambichaka). It was reported that in 1977 there were 108 state farms in the agricultural sector alone, and altogether, three hundred and eighty parastatals in 1980 (Moshi).

In 1974 there were 72 major Government Corporations established in Ethiopia and another 29 where the Government was the principal shareholder (Kinfu).

In 1966 a hundred Public Enterprises, with an investment of over K£ 150 mill. were reported in Kenya, and in 1978 three Parastatals had invested KShs. 470 mill. in equity shares in 85 private firms. At present there are more than 66 Public Enterprises and country-wide Co-operatives in Kenya in addition to about 100 subsidiaries.

In 1966 Uganda had about 14 major Government Corporations with about 53 Subsidiaries. In 1972 there was a nationalisation of foreign-owned firms or they were transferred to Ugandans (Atikoro). Consequently, in 1977 thirtyfour Corporations and Government Companies existed in Uganda of which one third were holding companies with a large number of Subsidiaries (Suruma).

Since the Arusha-Declaration in 1967, in Tanzania over 50% of the economy in the commercialised sectors have come under public ownership and control through public Corporations, so that only 16% of the total industrial investment was left to private enterprises (Moshi).

A wide range of tasks of Public Enterprises may be demonstrated by the example of the Uganda Development Corporation, which is expected to fulfill the following tasks: Co-ordination of the activities of Public Enterprises, advice to the relevant Minister, providing reasonable prices and services Including managerial services, providing foreign exchange, assist companies in long-term planning, giving financial advice by carrying out control, and providing licences for import and export (Atikoro).

A Public Enterprise can be defined as a separate production and/or commercial organisation that the Government either owns or in which it has a majority participation and that are run on a commercial basis (Moshi). This definition may apply to the situation in all the Eastern African countries, it excludes the carrying out of services by governmental departments but includes the services in which the Government holds the majority shares together with foreign or domestic investors. The latter type of Public Enterprises are numerous, particulalry in Kenya, where the participation of foreign capital is seen as an important contribution to stimulate the growth of the economy. In Eastern African countries we find totally state-owned enterprises and mixed enterprises (Joint - Ventures) as well as public utilities which are huge Government or Public Corporations. Moreover, we have to include the Statutory Boards or Authorities which are mainly concerned with the regulation or marketing of certain products or of the products of specific branches of industry. In the case of Tanzania, all agricultural marketing activities are assigned to a Public Agricultural Enterprise (Msambichaka). In Tanzania, we have to mention the State Farms as agricultural producing enterprises and processing and manufacturing industries which are public companies with the objective of import substitution. In Ethiopia we find the socialist firm, which is considered as an activity-decision-, and communication centre in the socialist society (Kinfu). It faces similar problems like Public Enterprises in capitalistic oriented countries or in mixed economies although it was mentioned that in socialistic countries incentives for the management and the staff of Public Enterprises are better implemented and the role of profit utilisation is more assigned to the objectives of economic and social development.

What Public Enterprises have in common is that they are separated from the public administration, are governed by an independent Board, receive directives from a parent Ministry and have autonomous working conditions, like freedom from "red tape", from treasury control and from political attention. They are intended to be self-financed and disinterested in profit unlike private enterprises and are often operating as a public monopoly and are committed to commercial auditing. It is also typical for the Public Enterprises in the Eastern African countries to have many holdings for specific branches and products which are in turn managing many subsidiaries.

There is no doubt that these characteristics of state-corporations are in practice not in any case fulfilled and that the theoretical objectives and legal provisions of Public Enterprises differ sometimes totally from the reality.

B. Contribution of Public Enterprises to economic development

The contribution of Public Enterprises to economic and social development of the countries of Eastern Africa, all Workshop participants agreed, is insufficient in the overwhelming number of cases in each of the countries. Nonetheless, all admitted that Public Enterprises have contributed in the past to Africanisation. It is doubtful if Public Enterprises have been properly used by the Government as instruments of supporting the governmental policy for improvement of economic and social development. In Tanzania for instance, only 46 out of of 71 Public Enterprises can run without Government grants and their capacity utilisation often amounts to 35% only of the actual production capacity (Moshi).

Although it does not necessarily mean that Public Enterprises which are not profitable, will not contribute to the economic development in some other way, it has to be mentioned that in 1978/79 out of 196 trading Parastatals the accounts of 81 such Parastatals disclosed losses in Tanzania (Moshi), Suruma (Uganda) has studied 7 commercial State Enterprises which were intended as profit making establishments to find out their role in development. He found that only four of them made a profit over a period of over 10 years, from 1973 to 1979 and were able to add a net-value to the national treasury. It was even argued that due to the influence of private interests on the decision making and activities of Public Enterprises and Joint Ventures, Public Enterprises as a policy instrument might be completely inefficient, but lead to increased prices and decrease in quality of products (Hopcraft/Ogutu, Kenya).

On the other hand, relating to the Tanzania experience, with the contribution of state-farms it has to be acknowledged that they have contributed through utilisation of large land reserves, better use of modern farm-techniques, increase of employment opportunities, better opportunities to agricultural training and development of attractive farm work to an improved performance in the agricultural sector (Msambichaka).

The Workshop participants discussed in detail the reasons for widespread insufficient performance of Public Enterprises:

1. In many cases Public Enterprises are supposed to take over non-viable projects which are risky and have low returns. With cases like these, it should not be expected that the Public Enterprise will be able to make a profit. But in other cases there is a lack of pre-investment survey which otherwise could reveal that certain projects should not be initiated.

2. There is a lack of precisely defined objectives for a clear company policy and the explanation of objectives as a guideline for the staff of Public Enterprises is therefore almost always missing.

3. Organisational structure and management structure are inefficient and not suited to the objectives and tasks of the Corporations. This can be seen in connection with the lack of job-descriptions and job evaluations which leads to overstaffing in Public Enterprises.

4. There are the problems of qualification and motivation of Management. In many cases there is a shortage of expertise and qualified manpower and also a communication gap between various levels of management.

5. Public Enterprises are often unable to solve financial problems with an adequate financial and accounting system. Particularly, insufficient cost accounting, high overheads, prestige offices and staff houses, high administrative costs, a delay of preparation of accounts and relying on financing through Government budgets is very much in existence.

6. They are missing an infrastructure like transport and storage facilities and the non-availability of material and spare parts due to improper planning and foreign currency problems. This leads to the already mentioned reduced production capacities.

7. Maintenance plans and inventory lists for machines and transport vehicles are hardly to be found.

8. There are no incentives for increased sales and no control from outside the Public Enterprise.

9. Staffing and recruitment are influenced by political interference which leads to a lack of motivation among the staff and to the employment of underqualified personnel. There is no communication or information in any department of Public Enterprises and particularly little knowledge to implement throughly prepared plans and to ensure the transfer of knowledge to organisational changes.

C. Control and Autonomy of Public Enterprises

The participants of the Workshop were critical of government directives and participation in Public Enterprises. The overwhelming majority of the participants agreed that although the "Government is in power to wind up the affair of any company. private or public, in the public interest (Mabele/Tanzania), particularly in countries with a mixed economy, the Government is not as powerful as the legal provisions should have expected. In many cases it is not the Government who is using Public Enterprises capacity for economic development purposes in a planned way. On the contrary, it is the private interest which are dominating the governmental activities concerning Public Enterprises. Particularly in some Joint Ventures private investors use Government involvement and relations for their own purposes. "Government participation means that investors hold it as a hostage to extract concessions of certain privileges" (Gachuki). "Policies governing the operation of Parastatal organisations in Kenya are usually compromises between the Government and the private interests" (Oyugi). Firms, in these circumstances are quick to perceive their optimal strategy as involving government financially as much as possible and then using that involvement to attract further concessions which then have the appearance of being in the government's interest (Hopcraft/Ogutu).

This situation does not lead to a consistent and competent policy guidance for the Public Enterprises through the Government, but leads to privately initiated government interference without long-term planning and co-ordination. In fact this means that the practice by the government leadership is very weak in terms of continuity of leadership and policy guidance. "Power over the affairs of the state enterprises in Uganda for instance has become increasingly concentrated in the manager " (Suruma). "Most of the managers stated that they only try to minimise government interference and that decision making power, because of the absence of a clear policy, is more concentrated in the person of the General Manager "(Brüning).

The Board of Public Enterprises, which legally has the power to manage the Public Enterprise, is often not in the position to fulfill its task. It was realised that there is shortage of professional knowledge and political independence from the Ministry or Permanent Secretary, which often leads to a conflict of personal and public interests which leads to inactivity and delay of decision making on the side of the Boards, and further contributes to strengthen the position of the General Manager. The information the General Manager gives to the Board cannot be evaluated by the Boards and taken as a basis for decision making and planning, because professional competence is lacking.

Control and accountability of Public Enterprises and in this connection their contribution to the national economic and social development, is therefore jeopardised by a lack of guidance, competence and dedication on the side of the Government and the Board but also by the power of the General Manager and by the powerlessness of other Institutions which ought to control the activities of Public Enterprises. First of all there is the Parliament which should function as control institution for Public Enterprises. But in practice, because of poor professional knowledge by members, and a strong position of the party or the Government concerning the level of information, Parliament is not in a position to control the performance of Public Enterprises. Moreover, even in cases where audit reports are discussed in Parliament, facts and figures are no longer up to date and therefore cannot act as a basis for decision making..

The reports of the Auditor General, who usually has to audit the reports of the Public Enterprises and has to evaluate their performance, are discussed in Parliament or by Government when the figures are no longer up to date and recommendations of the Auditor General are hardly implemented. The powerlessness of the existing insitutions concerning the control of Public Enterprises is even supplemented by the influence of non-governmental actors who have an uncontrolled impact on the Public Enterprises through management contracts and provision of technical assistance.

Considering the large number of Public Enterprises in each of the countries in Eastern Africa, the variety and complexity of their objectives and the fact that they have to operate in an environment which imposes a lot of restrictions on them and the Government as well, is not an easy task for the Government to administer and direct the Public Enterprises and to integrate them into a consistent and long-term development strategy. For the Kenyan case, the establishment of the D. Ndegwa-Commission of 1971 to come out with a report of the Commission of Enquiry (Public Service Structure and Remuneration Commission) initiated by the Kenya Government, and the P. Ndegwa-Report of 1979 indicate the awareness of the Government to the problems of the Public Enterprises and demonstrate the intention to overcome the present problems.

The recommendation of the Ndegwa-Commission in 1979 have led to the establishment of the Parastatal Advisory Committee by the Kenya Government which is authorised to look into the performance of all the Public Enterprises together with the Inspectorate of Statutory Boards already in existence. The Governments of the other East African countries have initiated similar activities and it is expected that these Committees will be made up of people with the necessary knowledge, competence and expertise to re-organise the Public Enterprises towards a more professional oriented performance.

D. Strategies for an improved performance of Public Enterprise

Among the many recommendations and proposals which were presented in various papers and in the discussions during the Workshop, some essentials may be pointed out:

1. We have to evaluate the performance of Public Enterprises at a macro-economic and micro-economic level. The performance at the micro-economic level (internal performance) will influence the performance at the macro-economic level which is demonstrated by the contribution of the Public Enterprise to national economic and social development in terms of employment, income distribution, capital formation, provision of foreign exchange. A measure for a successful contribution is the profitability of the Public Enterprise although it is not the only one. Many of the Public Enterprises are not profitable and if they are, profit is often achieved on the basis of unjustified privileges or is misused.

   It was stated that professional management at Government and top-level of the Public Enterprises would provide a situation where the funds of the Public Enterprise could be allocated in such a way that long-term plans are designed and implemented in line with clear political objectives as an integrated part of the national development plan. This has to be supplemented by an effective and autonomous control of Public Enterprises in terms of professional, independent auditing and evaluation committees, which are able to implement their evaluation results on the basis of published development criteria, independent from personal interest and ad-hoc Government interference. Such an institution also has to watch for the fulfillment of legal provisions and has to identify necessary amendments. An autonomous management controlled by an objective-oriented auditing institution both operating on a professional basis in connection with the ability and duty of the Public Enterprises for self-financing has been seen as a means in the right direction to improve the performance of Public Enterprises on the macro-economic level. The disaggregation of huge Public Enterprises down to easier manageable and controllable units, tough restrictions for the establishment of new Public Enterprises and subsidiaries and the abolishment of unviable entities may also help to achieve these objectives.

Concerning the internal performance of Public Enterprises a major problem is the creation of a competent professional management at all levels of the organisation. Particularly the Board members need a special education which enables them to carry out their management and control functions and enable them to tailor the plans of the enterprise and its policies according to national development needs and public interest.

Apart from the training of key management personnel in policy formulating, implementing and follow-up, there is a need to improve information and communication at all levels in public Enterprises. There must be a lot more of discussions and participation in the Public Enterprise's objectives, strategies and restrictions. In order to initiate this process there must be a strategy to increase the low motivation of staff in Public Enterprises by making policy and plans more transparent and controls less personnel-oriented. Together with financial incentives, and the introduction of carrier systems, particularly the management should participate and spend much more of its time in management studies and "future planning" and innovation.

Open discussions will probably reveal much more conflict within the Public Enterprises and will reveal hidden personal influence. But by managing these conflicts instead of suppressing them, a kind of behaviour in terms of motivation, solidarity, stabilisation, communication and internal allocation can be achieved which might be the only bridge which leads to essential improvement of internal performance.

3. All participants of the Workshop confirmed the need for further discussions among researchers and research institutions concerning the problems of Public Enterprises. The performance of Government institutions and the management of Public Enterprises has been stated as insufficient, but it was also pointed out, that the researchers have to contribute much more on their own to an improved performance of Public Enterprises.

There is first of all a need for more data about the specific problems of Public Enterprises and more detailed case studies and surveys should be carried out. The results should be readily discussed not only among researchers but with managers and Government Officials. All the three groups should work more closely together than in the past. The actual Workshop should therefore be followed by Conferences or informal discussions on more specific topics discussing problem-solving strategies.

Secondly, out of these discussions, researchers should get the necessary information to set up the right research priorities. Government officials should be convinced about the utilisation of the research results. The establishment of small researcher-trainer-user-circles could encourage the managers to come up with their problems and seek solutions in a " Joint Venture " without relying too much on foreign consultants and the management contracts.

Finally, it was agreed that there is a need for transferring research results into teaching materials and teaching activities. Many research results lie idle because transformation was never carried out. This of course, demands a much more intensive co-operation between researchers and trainers at the level of Universities but also on the side of private or public management institutions.

PUBLIC ENTERPRISES AND ECONOMIC SCIENCES IN AFRICA

By
INGRID HEIDERMANN
FRIEDRICH EBERT STIFTUNG

Forum: The need for a Target Discussion

The object of this conference is to promote communication and academic exchange among social scientists and development planners and administrators within the Eastern African region. This target group composed of economists, politicians and businessmen from several East African Countries, prompt me to make a few remarks which perhaps go a little beyond the framework of the actual topics to be discussed, but which for this very reason may be regarded as a link between the individual papers which are restricted to specific topics.

By way of explanation I should perhaps mention that the Research Institute of the Friedrich-Ebert-Foundation does not itself for the moment pursue any research on public enterprises, but does promote such activities in this sector, especially in Africa, for example in cooperation with the Institute for Development Studies (IDS) and (CARFRAD), and has long been engaged in the evaluation of its results. We also extend this support and observational activity to such self-help enterprises as co-operatives or commonweal enterprises. So Iam justified in saying that we have secured a fair overview of the problems of these and other public enterprises in several African countries.

The following observations are not intended as a substitute for scientific analysis. Nor can they be regarded as a cure-for-all. They are merely intended to point out certain typical findings and problems that have struck us time and again in Africa, in some cases in comparison with the situation in Europe in the light of the same topics.

The first observation was prompted in fact by this present forum because whilst we are very glad that this meeting is taking place here today it is a pity that discussions of this kind are extremely rare events in most African countries. It is a pity above all because in our view they are the only means of establishing a realistic approach to economic planning and effective business policy.

In most cases when African countries became independent the political structure they adopted in the first few years also determined the extent of public sector involvement in the economy. The economic structures chosen varied considerably from country to country. They ranged from total nationalisation to predominantly free enterprises.

It is the legitimate right of every country to choose its own economic system and I do not intend at this meeting to explore in any way the extent of nationalisation or free enterprise in any one country. But it seems important to point out that it is not enough simply to determine who actually owns a country's industry. Ownership of instrumental capital is not the sole criterion for effective management of the economy.

There is quite a philosophy behind the working of a private enterprise which is normally expected to see its main and sole aim in making as much profit as possible. But there are as well a lot of aims - besides profit making which are expected to be fulfilled by public enterprises. Which one whould be given priority? Which one is the most urgent one for the countries economy? This has to be decided definitely !

State-owned enterprises can be used in various ways as instruments of economic policy. If one assumes that they should by and large be run independently by their managers, the latter must have a clear picture of their priorities in the light of government policy. This makes a target discussion absolutely necessary. I shall point a few areas out as examples:

1. State-owned enterprises as instruments of regional policy.

   State-owned enterprises can be used in many ways as instruments of regional policy to ensure even development. They may be power supplies companies, for instance, providing the energy for a remote area without which no development at all will be possible, or transport enterprises, whose route schedules and charges make a particular area an interesting proposition for industrial settlement. And they may also be an instrument providing jobs in the particular region.

2. State-owned enterprises as instruments of cyclical policy.

   But state-owned enterprises can also be used as instruments of cyclical policy, for instance. By means of anti-cyclical or pro-cyclical investment they can support the general economic policy, or accelerate or slow down specific trends, depending on the time when they effectively make their investment. But they can also exercise considerable influence on the development of economic activity via their pricing policy.

3. State-owned enterprises as instruments of competition policy.

The same is true of their function in terms of competition policy. State-owned enterprises, too, find themselves competing with other concerns, whether public or private. They have to defend their position on the market and this gives them considerable opportunities to influence economic trends. Government price-fixing is certainly the worst way of supporting a state-owned enterprise. It narrows down the scope for fruitful competition and not infrequently leads to contests in a different framework merely for the sake of prestige. Workable competition, on the other hand, cannot be rated highly enough as a stimulus for internal rationalisation.

4. State-owned enterprises as instruments of structural policy.

State-owned enterprises are of decisive importance as instruments of structural policy. I have just referred to the use of transport and power supply utilities as means of creating infrastructure, but these public entities also have considerable influence on the capital structure of the economy as a whole, on the structure of employment and hence of income, and on the market structure. Thus they can help preserve the existing structure by aiming to maintain the present income levels and ownership status in specific branches of industry, or initiate or bring about a change in the actual economic structure by pursuing a deliberate policy of adaptation.

5. State-owned enterprises as instruments of social policy.

In most countries state-owned enterprises generally serve the purposes of social policy. If we understand social policy as the totality of measures implemented to remove the disadvantages suffered by certain social groups or to safeguard their standard of living, a state-owned enterprise has quite a number of functions to perform in this respect. The first will be to create jobs, but they will also embrace aspects of labour and social law, insurance and/or distributional policy.

Socio-political measures can also be linked with supply policy, for instance by concentrating on a certain category of consumer in the public interest, as in the case of publicly financed housing schemes. But socio-political objectives can also be achieved by providing services for different categories of consumers at different prices. One example of this are the different fares charged to school children, workers, and other groups for public transport.

Although one can think of a whole range of additional functions and areas where public enterprises can be used to direct economic activity, and one need only enumerate them to show that one single concern can hardly cope with them all, and certainly should not attempt to do so because each of these political functions would be bound to impair the state of affairs within the concern.

It is therefore crucial for the enterprise and its managers to know what aims, apart from manufacturing the actual products, the government intends to achieve. As, on the other hand, the political organizations themselves are no monolithic block as regards their decision-making structure, a decision on the aims and purposes of a public enterprise can only be brought about by means of intensive discussion between government and management.

The results of such discussions are usually of a temporary nature. In other words, once a particular economic trend has ended or if there is a change in the political scene, policy with regard to the enterprise's responsibilities and priorities is bound to change as well. Consequently, permanent discussion between the two sides is always necessary.

On the other hand, it goes without saying that a public enterprise can only perform these political functions in addition if the government establishes the necessary basis, whether by providing raw materials, by means of special investment, or by means of government grants to support functions of a socio-political nature, for instance.

There is a wide range of instruments, but we have noticed that very little use is made of them by politicians and business managers in most African countries. On the contrary, public enterprises are expected to pursue political objectives without any kind of previous discussion with the managers. The executive frequently forces such policies on the enterprises and this considerably limits their scope for rational management.

II. Types of enterprise

Whilst on the subject of the political responsibilities of public enterprises, we should perhaps first consider whether such entities in their present form have the kind of organizational set-up that is suited to their task.

Most of the early economic programmes adopted by African countries suggest or specifically state that public enterprises were established as an obstacle to private enterprises and as a means of ensuring a more even distribution of income and ownership, and there appears to have been little change in this idea. But this is all the more reason to ask whether this aim can be achieved; exclusively or for the most part by keeping a public hold on the means of production.

In the industrial countries as well there is considerable discussion on the expedience of certain types of enterprise and a huge amount of literature has been written on the subject. Without wanting to embark too much on a theoretical or philosophical discourse, perhaps I may at least raise one question and mention three types of enterprise which are designed to perform a public function. The question simply is: Has it always to be the state itself?

1. State-owned enterprises. There are first of all those that are totally owned by the public, whether this be the government itself or other state agencies. But such state-owned enterprises may also be under the control of and financed by local or regional authorities.

There is also a sub-category known as the mixed enterprises which, as the name implies, means that they are financed from government and private sources together. In African countries the government usually has a controlling interest of at least 51 per cent.

2. Public utilities. The next category I would mention, and in many countries a much larger one, are the so-called public utilities which pursue the aims of government economic policy. The public attachment implies that entities in this category are subject to permanent and intensive supervision as regards their economic functions. This may cover prices, investment, contractual terms, statutory or mandatory collective wage agreements, etc.

The public bond is usually regulated by law, the observance of which is ensured by specialised committees. Public utilities in this sense are to be found primarily in the transport and energy sectors, but also in banking and insurance.

The question as to the aim and purpose of their activities is to all intents and purposes answered by their designation. The statutory provisions and the corresponding controls lay down binding guidelines requiring them to concentrate on certain areas of activity and to keep their business practices within the statutory framework. Thus they are not in a position to aim at unrestricted profit-making. In most cases, however, the public utilities are run along much the same lines as a private company. That is to say, they are for the most part independent economic entities and not administrative agencies.

The question of ownership is for the most part immaterial to this category of enterprise. In fact, the capital may even be wholly in private hands. It may also take the form of a limited company with the involvement of various groups.

The literature on the subject points to a broad discussion as to whether the state-owned enterprise or the public utility is the most suitable structure for specific functions.

We do not wish to extend that discussion here today but to refer specifically to the public utility in particular because in our view it can considerably ease the burden of direct business management on the state without neglecting the aims prescribed by the state. At the same time, it may be easier to mobilise capital without the state itself having to invest directly. There is a third category, which needs to be mentioned:

Common-weal enterprises . The term common-weal enterprise embraces a variety of business structures but their common feature is that they are not directly controlled by the state. They have opted of their own free will to perform public functions. Their main criterion are their articles of association which specify their public tasks, the aims and purposes of their business activity, and the nature of their corporate decision-making procedure. The enterprise is owned not by the state but by individuals or groups who, of their own accord, have chosen to pursue public aims.

The principal entity in this category is the co-operative, not so much as regards the legal form, as the economic meaning, in the sense that it is a self-help organization. The fact that co-operative undertakings and public utilities are grouped together under the description "common-weal enterprices" is the result of an old tradition in German economic literature. As Adolf Wagner put it, it is mainly the "inner affinity" of their aims which unites these two types of enterprise.

If we ignore for a moment the fact that we are mainly discussing business enterprises, I would briefly add that this type of organizational set-up, that is, owned by non-governmental groups and embracing small private holdings, is suited to various other purposes as well, such as common tasks in the social and educational field.

The most striking feature of the common-weal enterprise in this case is that anyone can be invited to participate directly in the organization's economic activities. He may have his own financial stake in the enterprise but this is not a condition. Also conceivable in this category are types of enterprise in which the members gradually build up their own financial participation from the resources earned by the enterprise. But they retain a direct financial interest in the enterprise and are directly involved in its business operations. This generates a much stronger motivation than is usually the case when members are merely small cogs in a big wheel directly controlled by the state.

III. Self-sufficiency as business criterion

The political economy of state-owned enterprises has so far received very scant attention in the general literature on business management. Indeed, the public economy itself has done little to stimulate thinking or writing specifically about the management problems of such enterprises. There is a certain widespread complacency among state and local-authority-owned enterprises and the public authorities who, whilst they are mutually dependent, usually expect one another to come up with solutions to their own problems. Moreover, the lack of public criticism of the business practices of these enterprises is also one of the reasons why the underlying problems have seldom been raised.

As regards their management, it has been said that they followed the rules of private enterprise or just waited for instructions from the controlling authorities. Considering the development of centrally controlled economies of various countries, it can be said with a good degree of certainty that it is too much to expect government to be constantly concerned with the business operations of state-owned enterprises in every detail. Thus, apart from the target discussion, the need for which I mentioned earlier on, the state-owned enterprise must be enabled to carry out economic tasks on its own responsibility within a clear-cut framework.

In order to avoid any misunderstandings, let me say that I am not in any way denying the interdependence of all economic and political developments, but every enterprise needs at first a clearly defined area in which to manage its affairs on its own responsibility. All enterprises, irrespective of the political system they have to operate under, are to a certain extent self reliant entities that are expected to conduct their business in a rational manner.

The self-sufficiency or self-reliance of an enterprise is also understood as the self-financing principle. To put it simply, it is assumed that the enterprise will itself take all the decisions necessary for its internal operations and itself earn the money to meet the cost of such operations.

I mentioned in the beginning that in actual fact the economic systems of most countries - and this applies most particularly to African countries - expect public enterprises to have a decisive social influence as well. In other words, they have to fill in addition to normal business operations a role which they would certainly not accept without question if they were private enterprises aimed at making a profit. This role, and where appropriate the question of suitable renumeration for such activities, should also be decided upon within the scope of the target discussion. If one starts from the assumption that public enterprises too, should be expected to fulfill other tasks, it is necessary to appreciate that this normally only embraces costs that originate in the enterprise in the course of its autonomous production and marketing activities. They will definitely include costs which appear necessary for investment to maintain the enterprise or to finance agreed measures for its expansion. These the economist refers to as financial management costs, those incurred by an establishment being rationally and properly run and having as far as possible to be covered by income over a certain period.

In this sense, therefore, self-sufficiency implies that the company must be self-financing. It is not a question of making a profit but merely of covering operating costs.

There has been much discussion as to whether this principle should be applied in the public sector. The main argument put forward in its favour is that this is the only way of mitigating the inefficiency of public enterprises, that it would take up a lot of the organizational slack by motivating management and workforce. We would agree with this latter argument.

However, allowing enterprises a certain degree of freedom within the limits set out in the target discussion or the articles of association presupposes that they are in a position to function efficiently. But studies carried out so far show that they still leave much to be desired in this respect. In the initial phase, they usually give due regard to the problems of technology to the exclusion of other matters. But the widespread illusion that once a company has equiped itself with modern technology all other problems will take care of themselves has nowhere been borne out in practice.

If we leave aside the technical problems, there are two large and typical problems areas. One is the question of the exchange of information within the enterprise, the other that of decentralization and division of responsibilities, which is summed up by the term "worker participation".

One cannot overestimate the importance of information within the enterprise, information which can be called upon at any time. The management of a public enterprise must at all times be in a position to obtain immediate information on all internal processes and costs. This may also be information about inventory control and raw material stocks, production data, the number of employees off sick, and many other matters. With this information the administrative level, middle management, can prepare and report on material needed for decisions at the policy-making level. In a well functioning enterprise this information process works almost automatically in that information on specific matters can be requested and supplied at specific times.

It will depend on the size of the enterprise and the production set-up whether this information is provided on a person-to-person basis or by technical means. The development of computer technology and its increasing use as an aid to such decision-making processes becomes necessary where management can no longer easily keep an eye on the various activities and run the place more or less by intuition. Although there is usually no resistance whatsoever to the use of modern technology in production, we have gained the impression in our various investigations that there is considerable opposition to its introduction for information purposes.

On the other hand, an adequate supply of information is not only essential for external planning and target setting but equally for the decentralization of responsibility on the shop floor and hence as a means of motivating individual initiative within a framework that is known and readily grasped.

In both, East and West, models have been developed with a view to modifying power structures on the shop floor and removing authoritarian systems. I will only mention in this connection the Yugoslav model of worker self-government or the German system of worker participation, known as co-determination.

The extremely complicated relationships between decentralization or, in other words, democratisation and efficiency have been the subject of various sociological studies in recent years. There is no disputing the connection between democratisation and increased efficiency, and between job satisfaction and productivity. Experience has shown that more factory democracy considerably increases an enterprise's scope for decision-making. This in turn has led to much greater initiative on the part of the individual workers and encouraged them to play a responsible part, again within areas of responsibility which must of course be clearly defined.

If the economic structure as a whole is not to end up as an authoritarian bureaucracy, the system of central government control as practised in socialist countries, as well as the use of private sector power must be counteracted by means of internal democratic systems involving a considerable amount of individual responsibility.

IV. Strategies for the settlement of conflicts

It is no secret, that there is a tendency with public enterprises in particular not to draw public attention to their problems and disputes, but rather to keep them out of sight. They attempt either to suppress discussion of such problems within the company or to refer them to outside organizations (ministries, marketing boards, etc.) on the ground that they are the competent authorities.

There is little need to emphasise that this is no long-term solution. The main drawback to this attitude is always the fact that the positive, the motivating and the constructive element in any conflict are just not motivated.

It seems to me important in this context to point out, that conflicts are almost an inevitable consequence of the inter-dependence of the economic and the social process, but that they must by no means be seen purely from the negative angle. In actual fact knowledge of the existing possibilities of resolving the conflict can have various positive effects. Numerous European enterprises using different systems of worker participation have, as I said earlier, already found this out.

We therefore deem it extremely important to emphasise that the strategy of conflict management should be an integral part of any management training within the enterprise, and especially in public utilities and their administrative bodies, because co-operation among the latter, and hence the danger of conflict, is considerable.

This, on the other hand, is a good opportunity to bring in the researcher who , through objective analysis, can provide a balanced assessment of the respective situation, and hence a basis for a frank and unemotional discussion on existing problems and possible solutions.

Many African countries are still very sceptical about this sort of arrangement. There, frank professional discussion of business management problems is, unfortunately, still a rarity. Economic data are in many cases still treated as if they were classified material. No open discussion is permitted on target disparities and target conflicts as a result of the incompatibility of political requirements and the economic possibilities of the enterprise.

Until such time as there is a change of attitude on the part of all persons and groups concerned there is not likely to be any substantial improvement in the economic process. What is required are not only the technical prerequisites for production but also the proper interplay of all the factors involved - man and material - at the right time and geared to the common objectives. This is essential for a smoothly operating enterprise.

Perhaps I might emphasise in this connection that American and British authors have already analysed the genesis of conflicts in depth and developed extensive models for their solution. It involves social techniques which can definitely be learned. Unfortunately, we have not the time to go into the details of these systems except to say that a distinction has to be made between two types of conflict, the latent and the so-called manifest or open conflict.

The latent or potential conflict, the more common term for which is covert conflict, is usually the result of divergent, incompatible targets which are viewed and interpreted differently by the groups concerned in each case.

The manifest or open conflict (overt conflict) is the next stage after a latent conflict, with the difference that in this case one is aware of the conflict and of the opportunity for action. Thus the reaction to a latent conflict can be either its further suppression or deliberate conflict behaviour. With deliberate conflict behaviour another distinction has to be made between conflict management or uncontrolled conflict escalation.

Which conflict management, procedure followed in a specific case, will depend on the actual situation. Possible measures range from individual discussion via an improvement in the communication system we have already mentioned, the exchange of personnel, improvements in further training programmes for those concerned, to the appointment of permanent bodies as institutionalised forms of conflict management.

In all of these cases the different groups inside and out-side the enterprise may take the initiative, whether through informal discussion groups within the establishment, organised social affairs committees, bodies concerned with worker participation, or, at the national level, discussion between business and political leaders or between the various organizations involved in the economic process.

However I would like to mention, that the positive aspects of deliberate conflict management are self-evident and should in themselves be motive enough for action. Let me therefore just quickly mention those positive aspects once again:

1. Encouragement of initiative and motivation (efficiency incentive function)
2. Larger measure of solidarity among the groups or persons concerned (integrational function)
3. Stabilisation of existing systems as a result of the demand made on them (stabilising function)
4. In view of the basic organizational structure as to its suitability and validity, if necessary its modification (innovative function)
5. Developing and testing ways of improving communication between the different units (communicative function)
6. And finally considerable improvements can be made in the distribution of funds as between the groups concerned as a result of such intentional discussion of the conflict (allocative function).

A mere glance at these favourable possibilities of settling the process for a deliberate solution of the conflict in motion should be reason enough to give it a try. Incidentally, it is a fact, and this has been established in many surveys, that by contrast the use of threats and means of power is as a rule just as unlikely to resolve conflicts as is the suppression of the causes of conflict. Use of the instruments of power is always a source of new conflicts which rules out the favourable possibilities of achieving a soul solution. And of course it is by no means adequate to a socialist economy, which tends to give more freedom and better working conditions to men. A worker's attitude to "his" firm largely depends on the extent to which he feels that he is consulted and able to play his part. If we assume that a country's stability depends to a large extent on the smooth functioning of its economy, both businessmen and politicians should be anxious to solve the kind of problems I have just outlined.

As I said in the beginning, these remarks are merely intended to stimulate discussion. Of course, they have been very general. In particular, I have not explored the specific managerial problems of a state-owned enterprise resulting from the exclusion of certain economic functions. One such function, for instance, is that of marketing. This considerably restricts the prospects of rational management since it leaves the enterprise no opportunity to adjust its position by means of a deliberate price policy. This also applies where only the government allocates raw materials, with the result that enterprises have no influence on commodity prices and/or quantities.

Here it is above all a task for researchers to analyse, in the light of information from within the enterprise, the extent of the difficulties and problems which such restrictions on business activity entail.

Once the self-sufficiency of the state-owned enterprise, the public utility, or the common-weal enterprise is to be wellcomed in principle, any restriction or expansion of their normal business functions calls for a frank discussion based on detailed facts, among managers, politicians and researchers in order to ensure a smooth economic process. I appreciate the atmosphere of open minded discussion in IDS which I know for years and with this in mind may I wish all the participants in this meeting every success.

THE ROLE OF PUBLIC ENTERPRISES IN DEVELOPMENT

TOWARDS BETTER UNDERSTANDING OF THE DEVELOPMENT AND PERFORMANCE OF STATE CORPORATION AND STATE ENTERPRICE - WITH REFERENCE TO ETHIOPIAN EXPERIENCE

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INTRODUCTION:

1. From Privately Owned Corporations To State Corporation

The increase in number, size and influence of private corporations gave an impression that the corporate device was only employable in the private sector of industry and commerce. The growth of the corporate system in the private sector gave rise to such discontent and grudge that it was compared to the feudal system. Taking account of the great concentration of economic power, Berle and Means foresaw the private corporation as a formidable rival to the state. Fears were expressed that the economic organization,typified by the corporation, would supersede the dominant form of social organization. But little was known that the rivalry between the state and the corporate device would give rise to the former adapting the latter,that is,the state permitting the growth of state corporations as the dominant form of industrial and commercial organization.[1]

Looking at the history of corporate evolution, we must note that actually the state had a lot of influence in the development of corporations. In fact, state corporations have more antiquity than private corporations. As much as the state has influenced life in private Corporation by granting them the legal status of an artificial person, the private corporation also paved the way for the growth of state corporations in the present era. Giant corporations in their monopolistic growth technically and physically not only stifled the way for industrial enterpreneurs, but became inconsistent even with the ideal of free enterprise to the point that free enterprise became an obstacle to development,

1. Adolfe A. Berle, fr. and Gardner C. Means: The Modern Corporation and Private Property, (MacMillan, New York, 1950).

and the causes of many grave social problems and contradictions. Thus where the corporate device has taken away flexibility initiative and a sense of responsibility to meet public need, the constitution of the state corporation made public enterprise more acceptable.[2] When regulatory measures failed to protect public interest, the atmosphere was most favorable for the birth of state corporations. With the state corporations, the passing of nationalization legislation became convenient for taking over monopolistic corporations as a going concern. Thus state corporations were formed to be an urgent social necessity.

Public Enterprise and State Corporations Definitions:- Public enterprises may be generally defined as any government - owned and/or controlled unit that produces and sells industrial, commercial, or financial goods and services. But such a definition tries to be nonsystem-related, very broad and general. It tells nothing about the development, historical evolution, type, legal and organizational form encountered in various countries. It does not contribute towards the understanding of the operations and management of state corporations. Of course, a more rigid definition of public enterprise would definitely be elusive and undesirable in view of the variety of legal and organizational forms, encountered in various countries and systems. Public finance literature generally focuses on only two traditional types of public enterprise.[3]

a) Industries operated as fiscal monopolies by governments or their agencies, owing usually to the inelasticity of demand to provide a source of government revenue, such as salt and tobacco.

b) Industries that cannot be operated both profitably and efficiently, owing to the decreasing cost characteristics of production function (economies of scale), such as public utilities, power, water and some transport systems. In such cases, the government either undertakes production and provision of the goods and services in question itself, or permits the emergence of a privately owned "natural monopoly" that it regulates. Such activities would generate losses if operated efficiently, and losses must be financed from other sources. Attention in the literature has generally been focused on the appropriate pricing policy and the

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2. O.M. Parakash: The Theory and working of State Corporations with special reference to India.

3. Robert H. Floyd: Some Aspects of Income Taxation of Public Enterprise. Documents of International Monetary Fund DM/77/96.

government subsidy of financing the deficit and not really on their management and organization. Public ownership of business, however, is no longer confined to these traditional fiscal and or natural monopolies as we saw earlier. Many nations have, for a variety of reasons and as a result of the history of corporate evolution, and ideological and political evolution, come to assume or establish the ownership of various commercial, industrial, and financial enterprises that have often generated profitable and efficient operations. This heralded the governments enter or ownership into "non-traditional" enterprises, which were formerly the domain of private corporations.

We should therefore identify the following definitions:

Public Enterprise - (traditional) is a term referring to the traditional concepts of government-owned and or controlled enterprises operating in spheres of inelasticity of demand, and or "natural monopoly" conditions.

Public Enterprise - (non-traditional) refers to government owned or government partnership with foreign investors in non-traditional commercial and industrial activities. This gives rise more to the characteristic of the modern corporate structure leading to the creation of state corporations. The full articulation of the characteristics of a state corporation depends on its system relation.

State Corporations - in a socialist state this is used to refer to a collection of state enterprises. It does not matter in which sphere of activity it operates; while the state enterprise in a socialist state is an economic cell.

II. Public Enterprises in Africa

There is a growing concern in the world today over the management, effectiveness and usefulness of public enterprises as instruments of development and change.

In Africa and in all underdeveloped countries, this era has seen the rise of public enterprises in the form and names of State Corporations, State Enterprises, Development Corporations, and Public Corporations and Utility Marketing and Agricultural Boards. These are the various forms or names used when governments either enter into partnership with foreign investors or non-traditional public enterprises, profitable and efficiently operational markets other than those dominated by fiscal monopolies.

J.O. Undoji writes that any inquirer about public enterprises today is struck not only by "their variety....(but also).... by the number of those public bodies, the rate at which they are being created, and the large amounts of money being channeled into them."[4] In 1966 the Ministry of Agriculture in Kenya had over 100 public enterprises with an investment of over 150 million pounds, while Uganda had 14 major corporations of which the Development Corporation had 53 subsidiaries. Tanzania had 10 government companies and 35 boards and corporations with several subsidiaries; and 66 subsidiaries in the Development Corporation.[5] In Ethiopia in the early period of nationalization, the Ministry of Natural Resources (MNR) had 72 major corporations in 5 different spheres of activities with an investment of more than Ethiopian $300 million.

Chief Undoji says, "if the rate at which these bodies are being created and financed were indicative of economic growth of the countries, or the success of the bodies themselves, at least some of the countries would be near the stage of economic take-off. In West African at least the experience has been in the opposite direction."[6] The causes for such an experience has been identified as:

a) Investment in non-viable projects or projects that reaped quick returns within a short period, and a lack of pre-investment survey.

b) Scandalous and inefficient performance.

c) No precisely-defined objectives in terms of quantitative targets.

d) Political patronage - qualification is political acceptability, not the qualification of expertise or professional competency.

e) Inefficient organizational structure and management.

f) Lack of expertise and qualified manpower.

g) Lack of sound financial, fiscal and monetary policy.

h) Conflict between ministerial level, Board level, management level, consumer level.

i) Failure to articulate financial and accounting procedures and policies.

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4. J.O. Undoji; Reforming the Public Enterprise in Africa, journal of AAPAM.
5. Ibid.
6. Ibid.

The causes for their establishment and the raison d'etre, however, were :

a) After the achievement of independence, the industrial and commercial sector, which was controlled by foreigners, restricted Africans from participation. The foreigners entrenched themselves on commanding heights which became difficult to challenge by government.

b) Government realised that enormous and urgent problems of development cannot be solved by private enterprise, and government should get away from traditional caretaker and regulatory functions to move to an era of active participation.

c) The government had to enter into fields where private investment would not dare because they required huge investments and small returns.

d) There was the necessity for building infrastructure.

e) Some types of Boards (Marketing Boards) had to be created in order to maintain a pricing policy, for martialing and accumulation of surpluses for financing the capital budget.

Public enterprises and their growth in developing countries particularly in Africa has been astounding in their variety, size of investment, number and names. Their arrival heralded big expectations. They were expected to provide solutions for many economic difficulties, but experience showed the opposite, for soon they were fettered with problems. The causes for their failure to bring forth the expected results could be summarized as:

a) the lack of definite and articulated goals and objectives
b) the lack of management efficiency
c) the lack of technical expertise in financial, organizational and production know-how.

But despite this, one thing was definite their existence was necessary, continuing and assured.

III. Characteristics of Public (State) Corporations[7]

A further review of literature indicates attempts were made to discern the characteristics of public enterprise or state corporations, and the issues and problems encountered.[8] Some of these characteristics will be briefly enumerated.

1. Statutory Body- A public corporation (state corporations) is an embodiment of an expressed wish on the part of the state to create a new agency.

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7. W. Friedmann: The Public Corporation, (University of Toronto School of Law Series, Vol: I 1954).

8. Parakash op.cit.

2. Insulated personality:- Because it possesses a legal personality, it is not only separate from persons who conduct its affairs but also from the state as such. "It is a child of the state who grows to maturity as soon as it is born."[9] This legal personality independence is not always consistent in application. State corporations being part of the state are only treated or regarded as such. The degree of insulation from the parent institution is, therefore, not clear.

3. Independent governing board:- The affairs of public corporations are administered by an independent board, but there has always been a division of opinion whether the members of this board, specialists and others should be representatives of any section, class, group interests or not. In the Twenties, it was suggested that the boards should be composed of all the involved interests. Labour movements and socialist movements gave rise to a "workers control board", which in some socialist countries were disregarded in 1944 in favor of an efficiency board of persons chosen solely for their ability.[10]

4. Respectful relationship with the Minister:- A public corporation is responsible to the government through the appropriate Minister. The power given to ministers may vary according to the acts, but the powers the ministers would exercise concerning policy of control of nationalized corporations, terms of compensation, safety regulations etc. are important to define, though the level and extent is hard to determine.

5. Autonomous working conditions:- As much as the public corporation is a government child it is subject to supervised control, but over-centralization here has been held to be the root cause of inefficiency in the management of public undertakings. The other basic side of a public corporation concept, therefore, should rest on the autonomy of its normal (day to day) operations to ensure the following advantage:

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9. Parakash, op.cit.

10. Ibid, also I. Wilczynski: The Economics of Socialism. Profit, Book and incentives under Socialist Economic Planning (George Allen and Unwin Ltd. 1972).

a. Freedom from red tape - Commercial activities require quick decisions, which cannot be delayed through long procedural notes and routes (on time and real time).

b. Freedom from Treasury control - Though this may be neither completely possible or desirable in some situations, the need for 'self-contained finance' requires opportunities for incurring expenditures in a flexible, operational framework that cannot go through incompetency or unwillingness to assume risk which will prolong decisions.

c. Freedom from political dictation - A public corporation is expected to maximise its operational efficiency, guided only by its charter or policy directives issued by government But if nationalized industries get entangled in the political fabric "They will be in danger of losing the habit and thought on which efficient business depends."[11] Many nationalizing acts have attempted to ensure a happy blending of "business principles" and "public interest", though it is a herculean task to make a workable distinction between 'day to day business' and ' overall policy.' An example is a bank's refusal to grant loans to small cottage industry on the grounds of inability to furnish adequate security, which may contradict with terms of national policy. The Commercial Bank of Ethiopia's refusal to handle the payment of the university payroll through the bank on the grounds that it increases its cost of operation is a case in point.

6. Self-contained finance - This is a corollary of the fifth characteristic. The idea of autonomy remains illusory unless it is accompanied by financial independence. The state corporations (public corporations) to realize the expected income must depend upon economic factors rather than on the benevolence of the legislature. They should be free from inordinate delay, caused by excessive treasury control. They should be free from the lapse system which encourages lavish and imprudent spending towards the close of the financial year. Thus if state corporations are to adhere to proper "business principles" or operation, they will have to use accrual bases of accounting (entity **accounting**) and not government accounting with its cash

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11. Berle and Means, op.cit.

bases of accounting.[12] True, corporations like the National Cooperative Development, and Rehabilitation Administration are far from the ideal of self-contained finance. Self-contained finance has also implications on the manner and account in which profits are to be disposed of, and the process of establishment of reserve funds, and the portion of surplus to be paid to the central government.

7. Disinterestedness in Profit - The public corporation is not interested in maximising the profits, though it must be run efficiently, and in that process it may make large profits. A surplus resulting from such efficiency is the basis for socialized industry.

"The public corporation must be no more capitalist business, the beginning and end - all of which is profit and dividends. It must have a different atmosphere at its Board from that of a shareholder's meeting, its board and its officers must regard themselves as the high custodians of public interest" (Herbert Morrison).[13] It is hoped that the public corporation would "absorb the fine tradition of public service maintaining freedom at the same time, from corruption which characterise civil services."[14]

8. No shares and no shareholders:- It is true that the public corporation have no shares or shareholders, and 'the profit motive is replaced by the public service motive', but in financial terms the nation owns the equity in the case of public enterprises. The nation is therefore the enterpreneur in the ultimate analysis, it stands to gain or to lose from successful operations of publicly-owned industries. The gain or loss may be a monetary character, i.e. lower prices, reduced level of taxation, higher prices and increased level of taxation caused by inefficiency. The gain or loss may take the shape of "conveniences" and "inconveniences."

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12. Accrual bases of accounting - expenses and incomes are recognised when incurred irrespective of whether paid or received in cash. Cash bases of accounting - recognises incomes and expenses only when received and paid in cash, There is also modified Accrual or Cash bases.

13. Herbert Morrison.

14. Parakash, op.cit.

9. Public Monopoly:- It is customary for the state to declare monopolistic rights for itself in any particular line of business activity. Thus public enterprises (public corporations) must have monopolistic rights in that particular line of business activity, since it would be uneconomical and wasteful to permit competing units by parallel lines in public undertakings. Thus there is a strong case for ammalgamation and monopolistic operation by state corporations. But to guard against the danger of a public monopoly, judicial control is considered necessary to provide necessary safeguards for adequecy of operation, for provision of services, frequency, for control of fares to be charged, hiring practices, fixing compensation, overhead and maintenance, failure to meet contractual obligation, corruption and discriminitary practices. Where and how should the state corporations be sued, and who should be the arbitrator, and especially between state corporations is a dilemma.

10. Commercial Audit:- The public corporation is constructed to operate with a commercial or industrial character free from vaxatious rules of procedures applicable to government departments. Thus adhering to its efficient operation of 'business and financial principles' it must prepare its accounts according to well-settled commercial principles, including paying interest on capital outlay, taxes on profit, and percentages contribution to consolidated funds based on earnings. This would support the policy of making it to be subject for commercial audit instead of the usual government comptroller and Auditor General rule, which requires more than the pedestrian function of government audit, where auditors fall prey to "the penny wise, pound foolish" practice. They may engross themselves with such petty technical details that they hardly have time (or competence) to be able to pay attention or understand the broader questions of business efficiency, accounting principles and prudent management. Thus it is necessary to lay down the manner and form on how the state corporations account should be maintained and audited, defining more carefully the Auditor General's responsibility to these organizations, and the qualification and appointment of auditors for such organization.

IV. Characteristics of a Socialist Firm and Socialist Enterprise:

The socialist literature identifies a socialist firm and a socialist enterprise characteristics as follows:

A. Industrial firm in a socialist state is :

- a special, and at the same time, the principal element of the administration of industry.
- a specific economic production unit, organized for the purpose of achieving output.
- basic economic cell of the unified economy of socialist society.

The characteristics of socialist enterprise are summarised as:[15]

- collective ownership of the means of production
- collective production
- the purpose functions and structures which are determined by the prevailing mode of production.
- organizational and technical cooperation
- cooperation between human labor and machines
- harmony between individual activities through cooperation between those who perform mental and physical work and have different functions.
- socialist consciousness
- unity of politics and economics
- "not only a consciously desired systematically developed form of organization of the collective productive force, not only the physical, technical basis for satisfying the needs of the whole society, it is at the same time an essential constituent of the socio-economic basis for the dictatorship of the proletariat, the embodiment of socialist production relations. These two sides of the socialist industrial firm are inseparably bound up with each other, they form an indissolube unit"[16]

15. C.D. Karing: Marxism and Western Society A Comparative Encyclopedia (New York, Horder, 1972).

16. Ibid.

- influential institution for creating the "new type of man".
- Khozraschet system, fulfilling and exceeding the state planning target, utilising as effectively as possible funds provided by the state, lowering costs as far as possible and increasing socialist accumulation.
- contract system
- principle of one-man management.

Socialist Firm. Under free enterprise, the decision-making of firms is in the uncertainty about scarcity relationship between resources and products. These scarcity relationships depend upon the relationships between supply and demand. They determine the level of industrial profits, or the level of costs, and through these factors govern both the profit making and the non-profit firms. From the macro-economic standpoint, this means the economy is controlled according to the individual welfare function of the maximization of consumer satisfaction. Because of time needed for the decision-making process, however, decisions on supply are already taken before demand is known. Demand is based upon subjective valuation of commodities by the consumers. So long as free consumer choice exists in an economic system, the uncertainty over the governing factors cannot be eliminated. In socialist economic systems, the economy is controlled through the plan objectives which emerge from the general forward plans. These plans are drawn upon the basis of the "law of proportional development," the object of which is to fix the proportionate growth of industries in such a way that the building of socialism may take place as rapidly as possible. The economy is thus controlled according to a collective welfare function and the decision-making process of the socialist firm is therefore not characterised by uncertainty over demand. Risk is not however eliminated. According to socialist economic literature this risk does not exist in socialist countries. This uncertainty which is "anarchy of production", is inherent only in a capitalist economy. But there are others who argue, despite socialist literature, saying the risk is not eliminated in socialism, it is only shifted to the central planning authority, which with free consumer choice must fix prices ex-ante so high that with supply at the level of planned quantity these prices would also appear as scarcity prices ex-post in the actual subjective valuation of the consumers. This dilemma of the central planning authority in socialist countries is said to be that of "reconciling the law of value with the law of proportional development." To solve the problem, attempts have been made in East Germany with "New economic system of planning and management" to pass on part of this risk to the socialist firm.[17]

Socialist Enterprise[18] The socialist enterprise thus:

1. is an independently producing economic unit
2. has legal personality
3. has autonomy and contractual freedom though this depends on operative power (executive) or dispositive power (decision-making).
4. its goals are:
   - meeting the demand for production output at minimum
   - high quality and profitability
   - independent execution of the reproduction process within the framework of enterprises range or responsibility.
   - protecting employee's health and socialist property within the enterprise
   - improvement of socialist working and living conditions.
5. works through communication and information (no secret as in capitalist competition) cybernetics
6. its ability of conversion of above norms and goals depend on
   (a) decision-making hierarchy
   (b) production function
7. its coordination of operational and/or central planning functions by simulation, game-theory of iteration
8. tries to assure participation of labor force in decision-making and planning process of the enterprise.
9. has resources at its disposal
10. has its constitution
11. has a director - under principle of democratic centralism and principle of "one-man management".
12. has come to be partial risk bearer

17. Kering op. cit. / Wilczynski op. cit.

18. Ibid.

Incentives [19] Incentives appropriate to the socialist systems (socialist-enterprise) are discerned to be based on the following factors:

(a) Socialist consciousness

(b) Basic economic law of socialism

- direct to solving problem of continous expansion and improvement of production.

(c) Principle of material self-interest

- key to achievement of maximum economic benefit at the lowest social cost. He who achieves better results in his work should receive a greater reward, question is only the basis of evaluation to measure genuine production motivation.

(d) Active participation of all workers in the collective managing of the firm.

- not only achieve planned target but exceed, Offer labor time freely.

(e) The economy campaign

- save time, money, resources.

(f) Economy campaign - personal account

- account for use of matenial

(g) Profit index. As index of efficiency, it is said that Lenin said managers should be "punished with long prison sentences" if they did not succeed in operating at a profit.

- For example in the U.S.S.R. the Khozrachet system makes industrial accounting with profit criteria a practical necessity.

- Profit in socialist firm has the function of an efficiency indicator which shows how the firm is operating and what contribution it is making towards social accumulation as a whole.

(a) and (b) are considered to be moral incentives while (c) to (d) are supposed to be material incentives.

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19. Kering, op.cit.

To summarise overall the public enterprise literature:

- a) shows traditional versus non-traditional ones, b) notes the government and business characteristics in public enterprises, and their amphibiousness, c) hints that their malaise is due to a lack of specific ideological objectives, and that the environment and ideological setting can determine more of their nature. A state corporation in a socialist setting is not the same as a state corporation in capitalist market and this is not only due to the ideological objectives, but also relative to the level of technological development (level of sophistication of managerial know how, organizational structure, and financial accountability).

V. Critical Importance of Enterprise Performance

It is obvious that many capitalist micro-economic concepts are in conflict with the labour theory of value, social justice and planned development. Therefore after the formation of a socialist state or the declaration of socialism, state enterprise independence had to be restricted in order to prevent the recurrence of many abuses of laissez faire capitalism, the absolute power of management over workers, the exploitation of the public disruptive competent management personnel it was desirable and necessary that central authorities make all social decision for individual enterprises.[20] This makes the enterprise play a role of passive and obedient executor of command, and not a decision maker for resources under its command. It is understandable, however, how this is necessary at the early stages of development in order to enhance and centralize directive planning and management. However, this situation paid little concern for efficiency of the enterprise as was seen in the Societ Union 1940 - 1960.

In the mid 50's and 60's, therefore, there was a great debate in many socialist countries that led to reappraisal of micro-economics in socialist states particularly that of the place of the enterprise. For it came to be admitted and realised that even if resources were allocated at optimum at central planning level, there could still be wasteful utilization of resources on individual enterprises which would stagnate the socialist economy. Consequently, there was a need to free enterprises from too much interference in details of operations by central authorities, and to consider appropriate incentive measures, based on some criterion which would combine micro and macroeconomic, micro and macro management, and micro and macro accounting interests and objectives, so that "there is no contradiction between the interest of enterprise and that of society."[21] In this endeavor, the "enterprise obviously represents the main battle ground."[22]

20. Wilczynski, op. cit.
21. Wilczynski, op. cit.
22. Ibid.

For economy in the use of labor, capital and equipment and raw material, the introduction and diffusion of technology the improvement in quality and variety of products, the adaption of production to demand, cost savings, accumulation of surpluses, all depend on the ultimate analysis of enterprise and its efficiency of performance. The train of economic development leads to the study of "the enterprise."[23]

Socialist production is the material base of socialist finance. Its primary unit is the enterprise. Socialist state enterprises must work on a cost accounting bases since there is a direct connection between the qualitative and quantitative indices of the economic activity of socialist enterprises and their financial condition. Cost accounting thus becomes a form of planned management of socialist enterprise.

Criteria for enterprise performances . The socialist enterprises should be involved in a constant increase of profit volume within limits and conditions laid down by statutory rules and economic regulations. Despite what we saw to be disinterestedness in profit as one of the traditional characteristics of state enterprise, here we see profit involvement is necessary. But profit involvement does not mean enterprise can dispose of its entire accumulated profit. The profit sharing (profit skimming) is done in many ways in socialist countries (a) asset-proportional (b) wage proportional (c) production tax (d) turnover tax (e) profit tax, or by dividing it into (a) managers fund (b) enterprise development fund (c) improvement fund.

Financial involvements

The enterprise financial involvement as well as profit involvements means that for the enterprise to continue operations, it must have some discretionary powers to use its funds for (a) material incentive and the further development of enterprise employees, (b) increase of volume of profit, (c) independent economic accounting - for cost control or improved technical development, and to make self-cost as the basis for official price regulation and independent entity for administering its funds.

Enterprise profit involvement and financial involvement concerns

(1) the material incentives, and the further development of financial
(2) enterprise involvement in the increase of volume of profit.
(3) enterprise involvement in-independent economic acitivity and independent entity-independently administering its funds and resources.

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23. Borry M. Richmen: Industrial Society in Communist China.

Incentive:- The collective and individual incomes of the workers are closely related to the afficiency of the enterprise economy. It has been realised that to place enterprise performance on a solid basis and yield desired production results, some system of material motivation and criteria for evaluating performance of enterprise and the persons must be established. Of course, criteria for incentive payments or for evaluation of performance may vary.

Method of evaluation

a. Goal fulfillment in terms of meeting or bettering predetermined targets of output, quality, and unit cost of production.
b. Volume of output
c. Value added
d. Quantity fulfillment
e. Trade turnover (sales)
f. Cost of production
g. Profit.

In GOR, for example, there are 6-10 indices of performance considered as indicators and normatives for industry planning and measuring enterprise net performance.[24]

However, of the various methods, the superiority of profit indices has come to be recognised, even through the means of computing it may differ. The superiority of profit over other criteria consists in the fact that it is a "synthetic indicator". Profit maximization involves not only the minimization of cost but also maximization of the production which is in demand - actually sold. It is in the interest of enterprise personnel to maximise profits because a portion of it is distributed to management and workers in the form of bonuses and socio-cultural and housing improvements. After payments are made in the form of taxes and other deductions to central and local authorities, the remainder of enterprise profit is retained for financing further development and modernization of production, and to accumulate or replenish reserves for emergencies. Thus "the earnings, and application of profits provide a unique link combining the interest of the state, the enterprise and the individual worker."[25]

24. Edwin Pala Schewski: Indicators and Normatives in Planning Industry. Interregional Training Course in Industrial Planning. UN - Industrial Development Organisations, Berlin, GDR April, 1977.

25. Wilczynski, OP. Cit.

There are a few, however, who say that since factor costs as rent and capital charges have not been explicitily included as cost component, and the existence of a two tier - system of prices (artificially determined), an enterprise which may be considered micro-economically efficient could be macro-economically inefficient. Therefore, profit in socialism is not such a synthetic indicator as it is generally presumed to be.

It was only in 1960 (Prof. Libermann) that profit became accepted as criteria for the critical performance of enterprise in USSR. Given that the state corporation in socialist state is a collection of state enterprises, or is a complex state enterprise, then its efficiency is dependent on the strength and performance of the enterprise. State enterprise efficiency and performance is dependent on its involvement in profitability. Thus a state enterprise to operate efficiently must have:

a) Profit involvement and financial involvement.

b) Independent economic entity - (administration) - one man management rule.

c) Decide on its funds-given incentive fund and development fund.

d) Economic accountancy - Self-cost, basis for fixing price, cost accountacy, cost control based on entity accounting.

e) Greater use of profit measure and profit incentive, to allow more decision responsibility for enterprise managers to more intelligently use resources and achieve greater efficiency.

f) More income measurement and accounting practices (norms) as affecting economic development. Norms of rentability must be established.

g) Repair and maintenance decision through its internal management decision with broad guidelines established for the rate of replacement through (h)

h) An appropriate rate of retention of its accumulated funds for internal enterprise management - development fund, and workers' incentive fund - so that the rate of material incentive to labor and enterprise is fixed not by management and labor negotiation but by fixing rate of "fesses"* the enterprise makes to central treasury, state investment fund, and thereby the rate of retention for enterprise management.

VI. The Ministry of National Resources and Development (MNRD) and Enterprise Performance in Ethiopia.

On February 4th 1974, the PMAC brought under government control 72 privately-owned industrial and commercial companies in the country, and took over 29 other companies as principle shareholder.

In order to administer and control these nationalised companies and corporations and to centralise "all matters relating to the coordination and operation of public enterprise under the direction of a responsible minister,_ the Ministry of National Resource and Development was established by proclamation No 19/1975 coming into being 4th February 1975. But, since before this time there was no clear knowledge as to what was a public enterprise, nor was there any legal bases establishing a public enterprise, it was difficult to identify the public enterprise unit. Because of this gap, the external auditors (including Auditor General's Office) of the nationalized companies, under the auspices of the Ethiopian Professional Association of Accountant and Auditors (EPAAA) had to prepare a directive (see appendix Directive No.3) guideline for the preparation of financial statements of these nationalised firms. It is worth noting here what the directive had to say concerning the heading of the financial statements of an enterprise.

Thus the need for providing for the establishment and operation of public enterprise was effected by proclamation No. 20/1975.

The following proclamations are important.

1. Proclamation 19/1975 - Proclamation to establish MNRD
2. Proclamation 20/1975 - Public Enterprise Proclamation
3. Proclamation 26/1975 - Proclamation to provide for the ownership and and control bu government of the means of production; amendments and activities to be undertaken by public enterprise.
4. Legal notice 5/1975 - Public Enterprise regulation
5. Legal notice 7/16/1975 - Regulations establishing different State Coorporations.

* Fessess" - Rate of unexpended balance. Whether Committed or Uncommitted funds that is returned back to the Central Treasury according to lapsing appropriations assumption at the end of the fiscal period.

By proclamation 20/1975, the minister of MNRD unlike the other ministers hitherto known, was empowered to perform the following:

a) to establish and operate public enterprises, engage in agricultural industrial, commercial, service (tourist), and mining enterprises.

b) to direct and supervise such enterprises

c) to amalgamate two or more enterprises when it is necessary for the improvement of operation and direction of such enterprises.

d) to dissolve and liquidate any enterprises.

e) to borrow money, use any commercial or other instrument and incur liability, and own any property.

f) to issue any regulation with lease or hire of any property under his control, any written directives for the better carrying out of his function within the framework of the national development plan.

g) to appoint general managers, deputy managers, assistant managers, and department heads upon the recommendation of the general managers.

h) to establish reserve funds for each enterprise, approval capital expenditure, dividends, and other financial transactions including excess funds to be returned to the Ministry of Finance.

i) to receive externally audited statements of enterprises, though amended later to be audited by Auditor General.

The law also made clear that the enterprise was not to be exempted from payment of taxes.

In June 1975, the MNRD issued legal notice 5/1975 concerning regulations of public enterprises whereby:

a) it established public enterprises giving them juridical personality (legal entity) and limited liability pursuant to its power given by Procl. 20/1975.

b) Under the supervision of the Ministry it gave each enterprise power to invest, expend money and goods of capital undertaking, to borrow money, issue acceptable commercial instruments, pledge mortgage, possess and dispose movable property, open and maintain books and bank accounts and enter into contract.

c) it gave managers power to manage and supervise operations subject to the general direction of the Ministry.

d) it required enterprises to maintain accounts and books, and make reserve funds of 10% of net profit up to 40% of capital

It could be seen that the MNRD was given immense power and very centralised authority to run the "public enterprises" to the extent that public enterprises "legal entity" of existence was only established later. Therefore, not only direction but operational decision making was heavily concentrated at the top to begin with. This was the first giant State Development Corporation that was established in Ethiopia. Its organizational structure was big and complex, it had large capital investment, and quite a large number of employees and numerous enterprises within it.

Starting in July, 1975 the establishment of enterprises which came to be known as corporations, governed by the Public Enterprise Proclamation No. 20/1975 and legal notice No. 5/1975, was commenced. This action brought another layer of organizational structure between MNRD and the enterprise, though it created the economic cell known as a corporation with a legal personality. At this stage a public enterprise in Ethiopia was either the plant indirectly, or the corporation (a group of plants). What decision is to be at what level was, of course, unspecified. The power of a public enterprise and its manager, at the corporate level, and at the enterprise (plant) level was problematic. The need for a new public enterprise proclamation was soon realised and a draft proposal was initiated to clarify and provide for the control of operations of a public enterprise. However, it never was enacted.

The period that followed saw increasingly the establishment of state corporations, and the MNRD ceased to exist as of 8 September 1976, while the "Ministry of Industry responsible only for industrial activities" came into being. The MNRD cessation was not formally declared, but the established corporations became assigned to various supervising authorities - ministries from the MNRD. At present there are also various enterprises (plant) assigned to various ministries or supervisory authorities. However, there may still be enterprises which do not know who their supervisory authority is, i.e. ECAFCO. (Min. of Industry, ETHOF, or Min, of Agriculture - Forestry Departments or wood corporation).

Without going into the post-mortem analysis of why the MNRD ceased to exist, we can understand the problem of its bigness - centralization of decision-making for all enterprises; supervision of such huge conglomerate operations which were not conducive to efficient economic operation and performance of the enterprises, problems of identifying the "entity" as a centre of decision-making. It was thus natural to ask next how and what would be the manageability, organization, and performance of the enterprise (state enterprise). Fortunately enough it did not take long to ask such questions. The pace of the revolution quickly uncovered the issue, and new more manageable economic cells had to be recognised.

During a working visit to three southern administrative regions of Ethiopia (Megabit 3-8#'71) Chairman Mengistu Hailemariam of PMAC, and the Council of Ministers, and Commander in Chief of the Revolutionary Army, noted with heavy concern the shortcomings of the state farms and how the performance and operations of the state agro-industrial activities were far from desirable and at times catastrophic. He commented that following the government take-over the farms seemed to have turned into a consumption of available assets instead or producing income. The Chairman first held a nine hours meeting with the representatives of mass organizations and government officials on 9 Megabit 1971 (E.G) and issued an eight point policy directive.[26]

As a result of the working tour and acquaintance with the ill performance of the state agro-industrial enterprises, a high level seminar was held on March 28-29#1979 under the chairmanship of Comrade Chairman Mengistu for two days, attended by Derge Members, Ministers, Commissioners, representatives of mass organizations and various development projects and agencies. The meeting exchanged extensive views on problems encountered by state agricultural enterprises and their causes:

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26. Ethiopian Herald. 18th March, 1979.

The following are some of the many problems identified:

1. Accounts not closed
2. Asset values as of date of takeover not known
3. Depreciation not determined
4. Shortage of qualified manpower, general managers, accountants, financial management, and auditors
5. No increase of productivity. No method of costing or quantified planned target of output. No way of following up, measuring, or evaluating performance on day-to-day or monthly basis. Lack of financial data, or complete lack of criteria for measurement of evaluating performance.
6. Internal organizational conflict. No well-defined lines of responsibility and policy of management, labor unions, political discussion forums, and Revolutionary guards, corporations, state enterprises.
7. External organizational conflict, Not well-defined policy or clear line of responsibility and authority of Ministry, supervising authority, mass organizations (AETU, POMA), courts, and central government.
8. Managerial
   - management fear
   - lack of managerial know-how
   - lack of independence in responsibility and authority.
   - Management's limited power over money, material, manpower
9. Lack of scientific and technical methods for production control, inventory control, replacement and maintenance technic and policy.
10. Labor
    - Strong labor demand
    - Strong labor negotiation
    - increase in work force (employment)
    - weakness and strength of labor law
11. No clear-cut plan on managements administrative responsibility over funds and resources, allocation of accumulated fund to
    a. management
    b. employee incentive
    c. expansion and contraction
    d. contribution to central treasury

Most of the problems could be grouped into a) financial b) managerial c) production d) labor e) organization f) manpower, all of which could not be seen apart from the general technical, economic and political stage of development of the country.

The problems as I can see them are related to :

1) The lack of identification of the organizational and managerial and financial behaviour of state corporations or state enterprises, or the lack of a proper understanding of the nature and characteristic of state enterprises.

2) Problems related to the stage of revolutionary development.

3) Lack of adoption of technical and scientific principles and practices of modern management, finance, production, organization.

The first problem arises as a result of a total lack of understanding the characteristics of state enterprises, particularly socialist state enterprises or public enterprises. The literature itself is scanty. A specialised field of study has not concentrated on the internal managerial problems of such an enterprise. It has either been treated as parliamentary control, a political issue, or showed as if any management technique is applicable anywhere.

Therefore, the need for clearly identifying and analysing the managerial and organizational behaviour of state corporations or enterprises and identifying solutions for them.

The second problem emanates from the stage of revolutionary development; that is, when the revolution is at the stage of political takeover, then consolidation until reconstruction, the discipline needed for the critical performance of a state enterprise is not even a point of concern yet. Political expediency is much more important than economic rationality. Therefore, it is not until the latter stage of revolutionary development that the necessary attention and emphasis is given to the critical performance of the state corporation and state enterprise.

The third problem is also related to the second. Because of the early period of revolutionary zeal there is a tendency and overenthusiasm to impress on the need to be progressive, anti-reactionary and therefore relieve oneself from the ties of all habits, customs, techniques, and functions attached to the bold order, and thus a tendency for rejecting financial and accounting techniques and tools as capitalist methods not useful to the socialist setting. To the point of forgetting that there is no capitalist steam engine or socialist steam engine but a running steam engine, until the time comes to realise that revolutionary enthusiasm cannot exhaust administration responsibility. Of course, this is not to say that every technique and tool is useful or usable or equally applicable in every environment or even socialist environment. Management is science as well as art. The scientific aspect of management/and administration is an essential techniques which must be used, irrespective of environment, but the art aspect of management may need examination in view of those socio-economic environments before adoption.

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APPENDIX I

Board of Directors' Directive No. 3

To all members of the Association in Public Practice.

- A committee consisting of the Board of E.P.A.A. and practicing members representing individual auditing firms have adopted specific accounting and reporting standards in respect of nationalized companies.

- The Board of Directors of E.P.A.A. therefore, recommends that members of the Association follow these guidelines and communicate same to their clients.

1. Legal Status of Nationalised Organisations

Subsequent to the nationalisation of companies, the proclamation for the creation of public enterprises was issued. Corporations were established pursuant to this proclamation. The public enterprices proclamation further empowers the Minister of MNRD to amalgamate, dissolve and liquidate enterprises established under this proclamation by regulations. Although so far eleven corporations have been established by legal notices and there has been a grouping of nationalised companies under the newly created corporations, as yet no action has been taken by MNRD to alter the legal status of each of the nationalised companies. Therefore, the previous names of these entities should continue to be shown i.e. with designation "share company" or "private limited company" as applicable. Below the name on the financial statements, the EPAA committee recommends that the following sentence should appear " "Transferred to Government ownership effective from (date of nationalisation).

Similarly there has been no change whatsoever in the status of companies in which the Government has taken a majority shareholding. In other words, these organisations continue to have the legal status which they had prior to nationalisation, the only change being that the Government has a majority interest. These organisations have also been grouped under the newly created corporations.

2. Capital and Shares

The committee has recommended that the word "shares" be left out of the share capital section of the balance sheet and the owners equity be shown in the balance sheet as follows:

	Eth $ ct.	Eth. $ ct.
Capital		
Registered	XXX	
Paid up		XXX
Reserves and unappropriated profits at the date of transfer to Government ownership		
Legal reserve	XXX	
General reserve	XXX	
Profit and loss account	XXX	
		XXX
		XXX
Profit and loss balance per account annexed		XXX
		XXX

The last item will indicate the profit or loss for the period since the transfer to Government ownership.

MNRD has informally indicated that for accounts up to 30 June or 30 Sene, there is no need to make any appropriation to legal reserve. As and when resolved, transfers may be made at subsequent date.

Land

In view of the nationalisation of rural and urban lands, the EPAA committee recommended, by a majority vote, that the cost of land should be written off as it no longer has any marketable value. In accordance with generally accepted accounting principles the written-off will be made in the profit and loss account as an extraordinary charge for the period under review.

4. Severance Pay

In the province of Eritrea there has been the accounting practice of providing for severance pay on an annual basis. The EPAA committee recommended that accounting principles regarding severance pay should be applied consistently i.e. where severance pay had been provided in the past, it should continue to be provided and where it had not been provided it is not necessary to do so now. However, in the latter case, a note should be placed in the accounting principles section of the; accounts indicating that severance pay is charged in the accounts as and when expended but that the total amount of severance pay as at the balance sheet date should be indicated by a way of a contigency.

. Pension Fund

In view of the retrospective effect of the proclamation concerning the pension fund for the employees of Government-owned undertakings, companies should provide for the amount that is due to be paid by them to the Pensions Commission i.e., 6% of gross basic salary but that no entry should be put through the books regarding the retrespective effect of the contributions by employees until a more definite ruling is made on this by the authorities.

By order of the Board

Yeshitla Tekeste
Act/Executive Secretary

GOVERNMENT AND PUBLIC ENTERPRISES: SOME OBSERVATIONS ON KENYA

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I. INTRODUCTION.

In the 20th Century, investment in the public enterprises accounts for a fairly large percentage of overall government investment in national economic activities. Accordingly, the government, whether in developed on developing polities, pays a lot of attention to the way in which such enterprises are run. The relationship between the government and public enterprises is therefore fairly close.

The purpose of this paper is to analyse the nature of that relationship both generally and also in the context of the Kenya experience. In doing so special attention will paid to;

a) the principles or philosophy underlying the establishment of public enterprises both in the developed and developing countries.

b) what factors, with specific reference to Kenya, influenced their establishment both before and after independence.

c) what relationships exist between the government and the enterprises in (i) policy - making and (ii) internal management of the enterprises.

d) what role, in the final analysis the enterprises have played in promoting or hindering national development efforts. We shall be concerned here only with what in East Africa is popularly referred to as parastatals, that is, the statutory boards and corporations.

II. THE IDEA OF PUBLIC ENTERPRISES.

The idea that the state should actively participate in the management of the economy finds its major articulation in the writing of Karl Marx and his disciples. But it would be going too far to even suggest that the emergence and growth of public enterprises throughout the world is a direct import of the Marxian doctrine.

Before this century, state intervention in economic life was by and large considered undesirable. It was an idea to be resisted. The only areas where state control was accepted were defence and foreign affairs. With technological advancement and the resultant societal expectations and demands more and more people began to see the state as a major potential actor and mediator in national economic life. The specific factors responsible for the actual state interventions in economic affair have however varied from one country to another. The situation to day is such that there is widespread acceptance that the state has a major role to play in national economic life. Again the form of that participation is a matter of detail.

Although nomenclature may differ from one country to another, there are three major forms of government participation in the nation's economy. They are departmental activities, statutory boards and corporations established by acts of parliament or some other similar methods such as presidential decrees in military regimes, and public companies owned wholly or partially by the state and operating under company law. As we said earlier the paper is limited to the analysis of the activities of the state in those areas which lie outside the traditional civil service organization - the parastatals (corporations and boards) as we referred to them above.

Factors Influencing the Establishment of Public Enterprises.

A number of factors influence the establishment of parastatal organizations. Broadly speaking, they can be reduced to three, namely; political, economic and social.

Political considerations are partly a function of ideological inclinations and partly also influenced by the "national interest" however, defined. A political system which is committed to an egalitarian ideology is more likely to participate in the economic management of the country than the one which is not. At a more instrumental level, political objectives are considered to be primary when enterprises are established for ensuring the economic sovereighty of the country, for eliminating foreign capital from certain economic branches wholly or partially nationalizing private capital in a specific economic branch, or for national defence.[1] Considerations of political nature usually end up in nationalization actions. Nationalization itself is a political answer to the reluctance of the private sector (locally or foreign owned) to respond to certain government demands regarding the nature and objectives of private sector activities. It may also be an attempt to save basic industries from total collapse.

1. See Nikola Balog Administrative Management of Public Enterprises. Final Report of XIIIth International Congress of Administrative Sciences Paris 20-23rd July 1965.

In the 20th Century we have witnessed many cases of nationalization both in the developed and in the developing countries. The experience of Britain may be taken to represent the first case. Between the wars the economy of Britain experienced alot of ups and downs. (Industrial performance declined. The Hardest hit were the basic industries. The impact was felt by all.) Then came the second world war which devastated the entire economy. The mood in the post war period was one of both frustration and expectation. The scale of destruction was such that the government could not depend entirely on the private investors to rehabilitate the economy. In the national interest, the state intervention was a welcome move. But what made the wave of nationalizations which occured between 1946 - 1950 possible was the political philosophy of the government of the day - the labour government, for elsewhere e.g. West Germany and Italy took a completely different course.

In the developing countries, political consideration have played a major part in the establishment of parastal organizations. Nationalization has often been a manifestation of a "radical" ideological learning and two East African countries Tanzania and Uganda, represent a good case in point. In 1967 Tanzania declared the policy of self reliance - popularly known as the Arusha Declaration. In a nutshell, the Declaration called for the end of an inequalitarian system through the use of domestic resources. The implementation of the policy saw widescale nationalization of key sectors of the economy and subsequently the proliferation of state managed public enterprises. The Tanzanian leadership believed that only by exercising sovereighty over the economy could the basic sociatal goal of eliminating socio-economic inequalities be reduced if not eliminated altogether. The objective was political.

Like Tanzania, Uganda's move was mainfestly political. Nationalization efforts following the Nakivubo Pronouncement of May 1970 was meant to bring the key sectors of the economy under state control as a means of ensuring economic independence.

Economic considerations

No country in the world ever justifies her intervention in the management of the national economy in terms of political philosophy alone. There is always an economic or social explanaiion in addition. The primacy of politics aside, there is always a good economic case to be advanced in defence of state participation in the management of the national economy. We are for instance reminded by Douglas Verney that the initial impetus to public ownership in Sweden (other than the long established post office) was primarily economic.

"In a country so large, so sparcely inhabited and so comparatively under-developed as Sweden was in the 19th Century, only the state could provide complete national network of railways and telegraph board"[2] This point was to be stressed later by W. Friedmann when he observed:

> In thinly populated areas of vast dimensions and limited resources, the state must inevitably intervene to develop public utilities which are not attractive to private capital.[3]

Simply put, the state must intervene in those areas of the economy where private investers are reluctant to move because of economic risks involved.

In the developing economies, a major consideration is the need to control the use of the profit which accrue from the activities of economic enterprises. The argument is that, if the enterprise is under state control (unlike foreign owned enterprises) it can plough back its profit or surpluses into its activities for purposes of expansion or improvement.[4] Hanson submits further that such an enterprise if successful, can surrender part or the whole of its profits to the government by way of dividends, interest or tax payment, which funds can in turn be utilized to finance new enterprises or reinvest them in other enterprises including the enterprises that provided the fund. Furthermore, he argues, the enterprise can extend the benefits of its efficiency to the consumers in the form of lower tariffs such as...cheaper electricity cheaper water rates etc.[5]

The assumptions are noble ones, but things do not usually work that way, for it can be demonstrated that not all 'public' enterprises serve the public interest; that there are some private enterprises which may be more sensitive and responsive to popular demand such as providing services in high risk areas, than the public enterprises.

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2. Douglas V. Verney Public Enterprises in Sweden Liverpool University Press 1956 P8.

3. W. Friedmann, "Motives for the Creation of Public Enterprises' in A.H. Hanson (ed) Public Enterprises International Institute of Administrative Sciences Brussels 1955 P.12.

4. A.H. Hanson Public Enterprises and Economic Development London, Routledge and Keagan Paul 1959 P. 427.

5. Loc.cit.

Social considerations

Ideally, development should be oriented to the service of man. State participation in the management of the economy has meaning only if it can lead to the maximization of social benefits of economic growth. Alleviation of poverty, creation of more employment opportunities, bridging the income gaps, provision of basic services (water shelter, health, education, electricity) in a manner that can be afforded by different income groups are some of the major social considerations. Indeed, a key rationale for state participation in the economy is the assumed interest that the state has in the socio-economic wellbeing of her citizens.

An important question to ask later in the paper is, to what extent has state participation in the economy, taking Kenya as a case in point, resulted in the happiness of the majority of the people? We shall in the process analyse the factors that have accounted for success or failure.

III. THE EMERGENCE OF PUBLIC ENTERPRISES IN KENYA.

Public enterprises in Kenya have their roots in the colonial period. During this period the parastatals that were established were mainly intended to service the settler economy. Accordingly a good number of them were agricultural marketing and regulatory boards; and they came to prominence just before and after the Second World War.

Even the few developmental boards that existed tended to confine their activities to the white settled areas. The Development and Reconstruction Authority (DARA) had created very little impact in the African areas before folding up in 1954 and its activities being assumed by the regular departments of the Central Government.

The attainment of independence in 1963 saw widespread proliferation of parastatal organizations. As a result, there are now some sixty six parastatals and countrywide cooperatives.[6] The Report indicates however that the number does not include all Government companies such as the sugar companies, nor does it include all the subsidiaries of the parastatals.[7]

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6. Republic of Kenya Review of Statutory Boards (Chairman: Philiph Ndegwa) Presented to the President May 1979. Government Printer Nairobi, P2.

7. Loc cit.

The establishment of new parastatals organizations in the post independence period has mainly been influenced by political-economic considerations. At independence, Kenya inherited an economy that was dominated in every respect by the expatriates and foreign concerns. Major financial institutions such as the commercial banks and insurance companies were foreign owned and controlled. Agriculture, the backbone of the nations economy, was also dominated by the settler farmers. They were responsible for the production and primary processing of all export crops as well as producing the bulk of the maize that sustained the domestic supply. Industrial enterprises were also controlled by the multinationals and the expatriate concerns. Import-export trade as well as retail and distributive trade were also controlled in a like manner. In the circumstances, something had to be done in the immediate post independence period.

Africanization of the economy was the political answer to the problem. New organizations were established and old ones recorganized for the purpose. In the industrial field, the then existing Industrial Development Corporation was reorganized and expanded into Industrial and Commercial Development Corporation (ICDC) and charged with the responsibility of, among other things, promoting African participation in industrial expansion by providing financial assistance and management.[8] To carry out the said function, the ICDC established a number of subsidiaries, including the Industrial Estates network, whose main purpose was and has been since then, to provide an opportunity for Africans to take part in the industrial expansion.

The Industrial Estates in particular entails, according to the government, construction of factory building which are rented to the African entrepreneurs with administrative and technical services blocks attached to them. Machinery and equipment are provided to entrepreneurs on a 100 per cent loan basis and the loans are paid back over periods ranging between 3 and 10 years. Working capital has to be provided by the entrepreneurs themselves,[9] it shall be shown later.

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8. Republic of Kenya Development Plan 1970/74P. 316 - 318.

9. Ibid P. 318.

In the commercial field, the ICDC's leading subsidiary is the Kenya National Trading Corporation (KNTC) established in March 1965, to promote wholesale and retail trade and to assist in the transfer of commerce to citizens. In addition it was charged with the development of Kenyan participation in the export trade, principally in primary agricultural products.[10] In the transport sector, the state-owned (as subsidiary of ICDC) Kenya National Transport Company (KENATCO) was established in 1966 to handle especially long distance haulage.

In the field of Agriculture, the Agricultural Finance Corporation (AFC) partially inherited at independence, has been expanded and reorganized and has since been the major organ through which Africanization of Agriculture has taken place. Through AFC loans, it has been possible for wealthy Africans to acquire on "willing seller willing buyer" basis large scale farms formerly owned by white settlers. It has also provided funds for general developments on the acquired farms.

Indeed, there are scores of other parastatals whose activities are equally important. It is not possible to mention them all here. We shall however, touch on the activities of some of them later on in the paper.

A major characteristic of most of the parastatals in Kenya is that they depend heavily on foreign financing and management advice. The charter of ICDC, for instance, allows it to seek finance from abroad in promoting small scale rural industries etc.[11] The Industrial Estates so far established are heavily dependent on foreign aid. In a recent study, Gatheru Wanjohi observes that the programme is dominated by the Germans who provide "technical assistance" and capital for investment.[12] To circumvent the problem of capital, the ICDC has gone into partnership with a number of companies. By late 1978 their number exceeded sixty.[13] Most of them are foreign owned. The partnership solution appears to be more politically motivated than economic. One way of buying investment security in a developing country is for the invester to

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10. Ibid P. 422.

11. Ibid P.316

12. Gatheru Wanjohi. The Politics of Aid in Kenya 1963 - 1977 Ph.D University of Nairobi (Forthcoming).

13. See special Report in The Weekly Review Nairobi 27th Oct. 1978

get the government to acquire an interest through buying of shares. The 'partners' of ICDC appear to have opted for that 'solution'.

To appreciate all this, however, one has to understand the framework within which development policies have been pursued in Kenya. Right from the time of independence, Kenya opted to adopt a mixed type of economy. This policy was articulated in a sessional paper.[14] published in 1965. In it the government rejected "nationalization for its own sake" stating in the process that it intended to develop an economy in which private enterprises and public enterprises (where the latter were necessary) would exist side by side. In subsequent Development Plans, joint ventures with private investors have been encouraged. The policy of encouraging dominance of the economy by the private sector may have been a prudent one considering the circumstances of 1960s (e.g. fear to scare foreign capital) but whether it has yielded positive social returns is highly questionable in the light of the prevailing social conditions in Kenya.

IV THE RUNNING OF PARASTATALS IN KENYA

The problems facing the parastatals in Kenya can be analysed at two levels, namely, at the level of policymaking and also at the level of internal management. The policymaking function is one which the enterprise shares with many other interested parties. In the case of a public enterprise, the government, at least theoretically, is a critical actor . Where the government fails to play its part or neglects it altogether, a public enterprise is likely to go astray or even collapse.

Lack of external stimuli in the form of policy guidelines leads to laxity in the organization and eventually to disintegration of the organizational system. The disintegration comes about as a result of the managers beginning to promote their own 'particularistic' interests, as opposed to the public interest in the absence of 'external' concern for the latter. In some cases the neglect may lead to goal displacement as the managers alter the original goals to suit their own perspectives or interests with no external monitor to intervene. The practice is widespread in Kenya as we shall discuss presently.

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14. Republic of Kenya Sessional Paper No.10 of 1965 on African Socialism and its Application to Planning in Kenya Government Printer, Nairobi.

(a) Formulation of Policies

A major source of the policies that govern the operations of a parastatal in the charter or the act of parliament that gives it a legal personality. Such a charter or an act would normally spell out the broad objectives of the organization as well as its powers and limitations.

The broad policies governing the operations of a parastatal are usually established at the time of its formation. At this point, many actors may express interests of varied nature. Who participates and to what degree tends to be influenced by the prevailing political ideology in the system. Whereas in Kenya the ideology of development encourages the growth of the private sector of the economy, decisions about the establishment of a public enterprise are often shared between the government and the relevant organizations in the private sector. The government is always trying to avoid areas of sensitivity that might otherwise antagonize the private sector. What one often finds, therefore, is a lot of private influence in the running of parastatals in Kenya.

Two decades ago, a British academic made an observation which is quite relevant to the experience of Kenya. Hanson observed that industrial finance and development corporations in mixed economies are formed usually to perform the entrepreneural function the raising of capital, the risk bearing, the organization of the business etc - and then at a suitable stage sell out its holdings to private investors[15]. Kenya's ICDC and its subsidiary, the Industrial Estates fall into this category. Indeed, the investment policies of the ICDC are so commercially oriented that it takes a lot of persuasion to convince a skeptic that it is in fact a public body.

The point being allued to here is that policies governing the operation of parastatal organizations in Kenya are usually compromises between the government and the private interests. More often than not, political direction of such policies is usually wanting. Perhaps it may be in order at this point to assess the role which the various political and government institutions play in the formulation of the policies that govern the running of parastatals.

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15. A.H. Hanson Public Enterprises and Economic Development London Rontledge and Kaegan Paul Ltd. 1959. P. 192.

Parent Ministry.

Every parastatal has a parent ministry. This is the ministry that formulates and pushes through parliament the relevant bill establishing the organization. The relationship is rather formalistic, for there are times when the decision to establish an enterprise may have nothing to do with the parent ministry; but once it is made by some powerful actors, the ministry in question is merely expected as a matter of course to push it through Parliament or through the Registration Process. This happens usually in cases where certain people believe their businesses stand to benefit from state protection implicit in the establishment of such a body. I have no data yet, but circumstantially one can argue that KENATCO was launched under such circumstances. Most of the long distance haulage vehicles the company uses are known to belong to some very powerful individuals in the country. It is they that reap the maximum benefit in any business transaction in which the company is involved.

For those parastatals established with the initiative of government, the role of a parent ministry can be crucial. Whether or not the idea is accepted or shelved by Parliament depends entirely on the quality of the bill and the prestige of the ministry and of the Minister for the time being responsible for the ministry.

In most cases, the policy making of the parent ministry tends to end once the bill has become an act of Parliament or when the company has been registered. The weakest link in the policy sphere between the parastatals and the parent ministry thus occurs in the area of policy reformulation.

Policies can never be constant in a society. They have to be reformulated in accordance with the changes that take place in the society. This requires somebody in the ministry to monitor very closely the activities of the parastatals with regard to policy implementation and thereafter to suggest what kind of policy changes to be introduced. This is never done. Instead the parent ministries tend to leave the organizations pretty much on their own. Since management boards are usually weak, some executives tend to run these bodies as if they were personal concerns. This is the point, I believe, that the Philip Ndegwa Report makes, where it observes:

> The committee found instances of personalized institutions......... and in addition there came to the notice of the committee cases where ministries had provided little guidance or expartise to parastatals and failed to take steps to enforce established operating procedures.[16]

16. Republic of Kenya: Review of Statutory Boards Report and Recommendations of the committee appointed by His Excellency the President (Chairman: Philip Ndegwa) Government Printer, Nairobi, May 1979 p.22.

I could add that they have also failed to monitor and evaluate the implementation of the policies with a view to seeing what effect they have on goal attainment.

The Legislature

In policy making the National Assembly is not strong either. By its nature, the institution lacks expertise to enable it to scrutinize bills that come before the House. In some countries (e.g. USA) MPs have legislative assistants that help them to analyse technical issues that come up for debate. This facility does not exist in Kenya. The individual MP has therefore to be self reliant. Very few indeed take their work seriously. As a result, a lot of debate lacks the technical and professional bite of the kind that can be expected to alter the policy content of a bill when presented before the House. This may explain why, as Bradley and McAuslan observe, the government is usually reluctant to accept the suggestions emanating from the MPs.[17] They observe further that widespread membership at public corporations by MPs also affect the role of Parliament in calling the public corporations to account.[18]

The Boards

Once a parastatal has been established, the task of running it falls on a board of management, which in turn is responsible for appointing the staff to run it on a day-to-day basis. In theory the board is usually responsible for making the major decisions that govern the operation of the organization. In practice however, this is rarely the case. There are three explanations to this: Firstly, the board members serve at the pleasure of the minister who can remove them at will without giving any reason. To retain their positions they must go all the way to please the minister, or his representatives. Ithe circumstances, they cannot take independent positions. Secondly, the management tends to manipulate the board by withholding relevant and critical decisional premises upon which the board can make 'rational' decisions. They often get away with this because as a government report once observed, "a good number of directors of various statutory boards and corporations have relatively poor educational background and little business experience at this level".[19]

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17. A.W. Bradley and J.P.W.B. Mc Auslan "Public Corporations in East Africa" in W.G. Friedmann and J.F. Garner (ed) Government and Enterprises A comparative study Columbia University Press 1970 p. 284.

18. Loc cit.

19. Republic of Kenya Report of the Commission of Inquiry (Public Service Structure and Remuneration Commission) Chairman: D. Ndegwa, May 1971 p. 205.

Thirdly, there is the conflict of interest to consider. The Philip Ndegwa Report observes that the shortcomings of the parastatals could, among other things, be traced to conflict of interest between public responsibilities and private profit or aggrandisement.[20] This conflict of interest is caused by the practice whereby board members use their positions to secure business with the corporation on behalf of their own companies of those of their friends and or relatives. A board member involved in such a transaction compromises his 'voice' as representative of the public interest. Such cases are commonplace in Kenya. In the circumstances, the board cannot be expected to play a leading role in policy administration.

Non-governmental Actors

We have already alluded to the influence which non-governmental bodies exercise on policymaking in Kenya. Indeed the weakness of public and political institutions in the field of policymaking in the parastals is a spill over of that phenomenon. Most of the parastatals have management contracts with foreign based firms or locally based foreign owned management consultancy firms. They have a lot of influence on the operational policies of the organizations.

The role of capital is equally important. Donor countries usually insist on providing technical assistance for every operation they finance . Those parastatal organization.such as AFC, ICDC etc. that depend on financial assistance from donor countries, employ a number of technical assistance personnel, who in turn influence the day to day administration of policies.

Other non-governmental organizations that influence the operational policies of the parastatals are the local financial institutions (Still predominantly foreign owned) that also lend operational and investment capital; the Federation of Kenya Employers which represent the bureaucracy of the larger foreign companies and the state owned commercial corporations;[21] the Association of Kenya Manufacturers which acts as a pressure group on behalf of manufacturing firms whether private or 'public'.

By being members of some of the associations mentioned above; parastatals have tended to operate as if they were not what they are supposed to be ________ public organisations. The observation here is that most of the policies governing the actitivities of parastatals in Kenya are largely influenced

20. Republic of Kenya: Review of Statutory Boards op cit P22.

21. See Colin Leys Underdevelopment in Kenya. London , Heinemann, 1975 P. 139 - 146.

by non-governmental interests.

Political guidance

Kenya displays the characteristics of those societies that have been dubbed 'bureaucratic polites'.[22] It has a very powerful bureaucracy that has since independence overshadowed the ruling party - KANU (Kenya African National Union).[23] In the regime of the late Mzee Kenyatta the Permanent Secretaries in the majority of cases were both the administrative as well as the political heads of their ministries. It was not uncommon for a PS to overrule his minister. A number of such instances were reported in the local press. In the circumstances, most of the chief executives as well as directors of the parastatals were infact the nominees of the Permanent Secretaries in whose ministries the individual corporations fell. In some cases very close relationship emerged, developing in some cases into business partnerships, especially after the adoption of the recommendation of the D. Ndegwa Commission Report allowing civil servants participation in private business.[24] The conflict of interest that is referred to in the Philip Ndegwa Report can largely be traced to this development.[25]

The weakness of the party system means that the bureaucratic elites are left on their own to determine the major developmental policies and the nature of their implementation. The relative powerlessness of the ministers is partly also due to the weakness of the party system. The minister's only dependable source of strength is closeness to the presidency. If the closeness is not there, no senior civil servant cares about what he says. Here then lies a major weakness in the general administration of public institutions in Kenya.

Overview

The argument in this section of the paper has been that the public institutions that are supposed to formulate policies governing the operations of parastatals in Kenya have by and large failed in carrying out that task primarily because of the nature of the political-economic relationships that have emerged in the post independence period. It is a development that has resulted in the displacement of public interest by private interests with the latter interest dominating the public policy making institutions and processes.

22. See e.g. the works of Riggs, Pye, Apter etc.

23. For more on this see C. Gertzel The Politics of Independent Kenya EAPH 1970.

24. Republic of Kenya Report of the Commission of Inquiry (Public Service Structure and Remuneration Commission) Chairman: D. Ndegwa op cit.

25. See footnote No. 20 above.

(b) Internal Management of Parastatals

> While the government has always concerned itself with efficiency in the Civil Service, very little direct attention has been given to parastatals. Consequently, in the parastatal sector, unlike in the Civil Service, there are no uniform and coordinated procedures or systems for ensuring efficient management and public accountability (Philip Ndegwa Report P.3).

Functionally, parastatals do enjoy a very large degree of autonomy with respect to investment decisions, recruitment of staff and financial management. It is the abuse of these freedoms that has led to the problems referred to above. The abuse has been facilitated by the failure of the parent ministries, the boards and the legislature to establish an effective machinery for monitoring the activities of these organizations.

Parent Ministries

One way by which the parent ministry can ensure that a parastatal is properly managed is by providing professional and management guidance on a regular basis. This presupposes, of course, that the parent ministry itself is adequately possessed of such capabilities, and further that it has the administrative and political clout to do so. Our discussion (above) of the interaction between the parent ministries and the parastatals in the policy-making process tended to cast a lot of doubts in the abilities of the parent ministries to guide the parastatals. The emergence of politically very powerful managing directors has steadily led to operational autonomy on the part of many organizations and to the tendency to run such organizations as 'personal institutions', as was sadly observed by the Philip Ndegwa Report above.

There are a number of areas where a parent ministry can act. These according to the D. Ndegwa Report include:

(i) Scrutiny of capital and recurrent budget

(ii) authorisation of borrowing above a certain level

(iii) direction in regard to disposal of surplus funds

(iv) approval of acquisition and disposal of high value assets such as land and buildings.

(v) detailed formulation of pricing and marketing policies.[27] Indeed Kenya has a reasonably clear policy that public corporations of whatever kind must be subject to strict control in the way they raise

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26. Republic of Kenya Report of the Commission of inquiry. D. Ndegwa Chairman op cit P. 208.

27. See A.W. Bradley and J.P.W.B. Mc Anslan Public Corporations in East Africa op cit P. 277

and spend their money.[28] Yet in practice a lot of irregularities in this regard have been detected and reported,[29] but no substantial actions have been taken other than retiring the culprits in a few selected cases.

Boards

In many parastatals, the boards of management have failed to discharge the duties expected of them. They have failed to ensure that the running of the organizations' activities is not influenced by parochial or personal interests. They have for instance, failed to remove nepotism and tribalism in recruitment; they have failed to ensure proper protection of public property (e.g. a recent scandal involving the sale of land between the Management of the Railways Corporations and the Kenya Reinsurance Corporation) o private real estate developers as reported in the local press). Indeed, most of the reported cases of corruption and inefficiency in the parastatals can be directly linked to the weaknesses of the boards.

It is an irony however, that the weaknesses of many boards lie in the nature of the appointment of members, which tends to emphasize the political rather than the professional and managerial qualifications of the appointees. On this problem the D. Ndegwa Report warned:

> Politically motivated or interest oriented appointments generally sacrifice quality of membership and results in conflict of interest, colourization of policy decisions, all of which combine to reduce management efficiency.[30]

The appointment of key personnel by the boards also tends to be influenced by such considerations. Patronage is thus well institutionalized in the recruitment system of parastatal organizations.

Legislature

By its very nature, the National Assembly is illequipped to monitor the way parastatals are being managed. The Assembly would normally only debate the situation in a parastatal after a relevant report or statement has been presented before it by the parent ministry. The financial reports presented to Parliament by the parent ministries are usually several years overdue. Consequently the impact of the discussion of such reports is usually los

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28. In both the D. Ndegwa and P. Ndegwa Reports.

29. op. cit. P. 205.

30. Republic of Kenya. Review of Statutory Boards op cit p. 23

Even efforts by backbenchers to probe some of the sick parastatals have in the past generated very little enthusiasm if not none at all, on the part of the government.

The Exchequer and Audit Act (Cap 142) provides for the audit of the accounts of statutory boards and commissions by the Controller and Auditor General. Every year the Public Accounts Committee discusses the reports and makes recommendations that nobody bothers to implement. The problem is a political one. As we mentioned earlier on, the bureaucratic power in Kenya usually overshadows the formal political power on matter of this nature - and here lies in part, the source of the problem.

V CURRENT STATE OF AFFAIRS

The setting up of a committee in 1979 by his Excellency the President to review the state of the parastatals in Kenya was an expression of concern about the general running of these organizations. It is not possible to discuss here the state of the individual organizations in any meaningful detail. What appears below is only a skeletal outline of some of the problems responsible for the decline of the mentioned organizations:

(i) Kenya Meat Commission (KMC)

This is a very old organization established during the colonial period to service the interests of the expartriates. In the recent years it has faced a lot of financial and mangement problems. According to a Nairobi Weekly Review 30.6.78) the commission has over the years been exporting meat and meat products through middlemen who could be done away with. These middlemen were suspected to be partners of some of the Commissioners. Indeed a senior official of the Commission was a known exporter of meat, and it was suspected that he was behind the stiff competition the commission was facing in the export market. This is a typical case of conflict of interest leading to the running down of a parastatal.

(ii) Maize and Produce Board

The current shortage of maize in the country has been blamed on poor management of the Board. Among other things, the board has been unable to control the stock, and has in some cases tended to give preferential treatment to some millers thus resulting in over supply and consequently to the depletion of the strategic reserve. There must be many cases similar to the one revealed in the Weekly Review (1st February 1980 Pp 26-27) to the effect that a former minister of Agriculture had a maize mill that did business with the Board.

It has also been reported as being one of the five major parastatals (the others being Kenya Cooperative Creameries, Kenya Meat Commission, Wheat Board, & Kenya Airways) that are at present in serious financial difficulties.[31]

(iii) Kenya Cooperative Creameries (KCC)

The performance has been so pathetic that a minister of Cooperative Development once threatened to have it absorbed into the mainsteam of cooperative movement to ensure more efficient management. Top management was also accused by former employees of gross irregularities and general mismanagement.[32]

(iv) Cotton Lint Seed Marketing Board

This is one of the very few boards whose senior management team has been twice dismissed in the last seven years for general mismanagement and financial irregularities. In one of the cases a general manager was dismissed for allegedly having entered into a questionable ploughing contract with private tractor owners where a cheaper deal could have been settled with the Tractor Hire Unit in the Ministry of Agriculture.[33] The board has also been unable to pay farmers for cotton actually delivered.

(v) Kenya National Trading Corporation

Theirs is also a management problem. The Corporation has failed to device a foulproof method of distributing especially the essential commodities. In some cases they have given distribution monopoly to some very powerful public officials that in the end turned out to be suspected smugglers. A cabinet minister once called for the desolution of KNTC or firing all its officers, charging that the statutory board had miserably failed the country.[34] It turned out however, that the minister in question was one of the corporations distributors!

Overview

The point being made in this section of the paper is that largely as a result of the failure by the relevant institution in the system to control the management of the parastatal organizations, the latter have degenerated into sick organizations characterized by, in the words of a recent report, "prolonged inefficiency, financial mismanagement, waste and mulpractices.[35]

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31. The Weekly Review Nairobi 15th Dec. 1978 p. 30.
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33. For detail see Weekly Review Nairobi 1st September, 1975.
34. See Weekly Review 26th May 1978 p. 20.
35. Republic of Kenya Review of Statutory Boards op cit p 3.

VI. ROLE IN DEVELOPMENT

In the light of the foregoing analyses, one might ask: what role in the circumstances have the parastatals played in promoting or hindering national development? Put differently, to what extent has state participation in economic development through the establishment of parastatal organizations benefitted the majority of the people?

We said earlier on in the discussion that publicly owned enterprises could be essentially private in behaviour and anti public in performance. The experience of Kenya bears out this very clearly. The way many parastatals are being run like personal concerns makes the attainment of public interest a remote consideration. That they are being inefficiently managed means that they cannot generate enough funds that could be used for further investment. The subsidies they get from the Treasury from time to time in an endless fashion deprive needy development projects in the country of funds.

Even for these enterprises which are not faced with financial crisis their contribution to national development (capital formation apart) is rather questionable. We take the case of ICDC to illustrate this point. ICDC like similar organizations in mixed economies was formed mainly to perform an entrepreneural function - the raising of capital, the risk bearing, the organization of the business etc. and then at a suitable stage sell out its holdings to private investors. About this strategy the late Professor Hanson once observed:

> One hardly need to be a doctrinaire socialist to feel that this method of creating a capitalist sector of the economy is a confession of the inadequacy of the whole private enterprise perspective.[36]

Hanson argues that the sale of the more successful state enterprises to private entrepreneurs has among other things, the effect of increasing the area occupied by private property and reducing that occupied by public property without any compensating contribution from the former.[37] He argues further that the strategy leads to unequal distribution of income by creating the propertied and propertyless groups in the society. In the end the whole exercise becomes anti developmental because of its negative impact on the propertyless majority on whose willing cooperation the success of economic planning may ultimately depend.[38]

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37. Loc cit.

The ICDC's investments in the Industrial Estates which we touched on above have had similar effects. Apart from generating a few employment opportunities, the programme is more of a burden to the economy in terms of the foreign exchange flight which occurs through the importation of machinery and equipment.[39] In other fields of ICDC's activities such as joint ventures with private investors, the protection given to the 'partners' is never matched by corresponding benefits to the public. Goods manufactured in ICDC's subsidiaries etc. are sometimes more expensive than imported goods of similar quality. One is therefore tempted to suggest that parastatals may have contributed negatively to the development of Kenya.[40]

CONCLUSION

There is no doubt that all is not well with the parastatals in Kenya, Basically, the problem is inherent in the nature of the society and the strategy of development Kenya has been pursuing since independence. The problem has been accentuated by the lack of effective insitutional control of the operations of these organizations.

It has been established above that the institutions such as the parent ministries, the boards, the National Assembly and the political party-KANU, that would normally be expected to monitor the activities of these organizations with a view to ensuring that they are efficiently and effectively managed have all failed to live up to the expectation. Their guidance in the policy-making process has also been generally weak. All this was attributed to the nature of the political-economic relationships in Kenya.

Aware of these weaknesses (but apparently not of the underlying causes) the Government set up a Review Committee to report on the state of these organizations and to suggest what remedial actions should be taken to rescue them.[41] Their major recommendations revolve around two major areas: how to improve financial management and Government supervision of the boards and corporations.

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39. For more on Industrial Estates see Gatheru Wanjohi. The Politics of Foreign Aid in Kenya op.cit.

40. The author believes that more case studies of the type which Wanjohi has done on the Industrial Estates should be encouraged before a more conclusive position can be taken.

41. Republic of Kenya Review of Statutory Boards op.cit.

It is not my intention to discuss the detail of those recommendations here other than simply observing that they are based on somewhat false premises - that the problem is one of lack of effective management and that adjustments in this area would bring about the desired effect. My submission is that the problem is more intricate than it appears. It involves the restructing of the basic value orientation of the political-bureaucratic elites in the society. It involves the introduction and institutionalization of acceptable ethnical standards in public and private life if practices such as corruption, nepotism etc. have to be eradicated altogether.

Recommendations such as strengthening the hitherto understaffed inscpetorate of statutory Boards by appointing more staff and giving it more powers and the establishment of Parastatal Advisory Committee make sense only if (a) the attitudes and behaviour of the men and women to man these organization also change accordingly.

THE ROLE OF GOVERNMENT IN PUBLIC ENTERPRISES: A CASE OF THE UGANDA ADVISORY BOARD OF TRADE.

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INTRODUCTION

The purpose of this paper is to examine the role of the Uganda Government in Public Enterprises. I am defining public Enterprises as business organisations set up by Acts of Parliament or Decree to undertake economic development in areas which are the economic life blood of the nation. In Uganda such bodies include the Uganda Development Corporation, the Uganda Electricity Board, the Marketing Boards and the Uganda Advisory Board of Trade.

This type of business organizations is found mostly in developing countries where most producers are either small scale growers or traders. There is therefore a general lack of adequate capital and as such local businessmen tend to take a short term view of the returns on the money they invest and prefer small scale enterprises which yield profits quickly and are less risky. In agriculture, for example, the participation by indigenous people is on such a small scale that they usually comprise of a few acres of land just enough for home consumption. In this case the government would find it necessary to intervene and undertake a viable and large scale agricultural produce for commercial purposes. The government is prepared to take risks and accept short-term losses which the individual is usually unwilling to accept.

The supplies of capital and technical skills from these countries is inadequate and so it becomes the duty of the government, to encourage industrial expansion by creating public enterprises whose role is to obtain capital and the necessary manpower and spearhed economic development.

It will not be possible in this paper to describe the role of the Government in all the various public enterprises in Uganda. I intend therefore to concentrate on the Uganda Advisory Board of Trade as a case example of the governments' role in Public enterprises.

THE UGANDA ADVISORY BOARD OF TRADE

BACKGROUND

In its early attempts to encourage the African businessmen into a full participation in the country's commerce and trade, the Government, through the Uganda Development Corporation, (UDC) in 1963, set up the Africans Loans Fund to provide capital for small-scale African businessmen. On the 17th July, of the same year, African Businessmen Promotion Limited[1] was incorporated as a subsidiary company of the Uganda Development Corporation, and had the full backing of the Uganda Government. Its aims were to bridge the gap which had for a long time existed in Uganda trade between Africans and other races engaged in trade and secondary to look into problems and difficulties facing the indigenous people of the country and to find solutions.

An early research conducted by the officials of the UDC revealed that the prime problems facing the African businessmen was the lack of adequate capital and non-availability of credit facilities. They did not have business know-how and that Ugandans are not born traders. Unlike the Asians, they virtually have no business experience heritage behind them. It was also found that Africans left commerce to people with every little education while the well educated engaged in other professions. There was the problem of lack of housing in towns, lack of book-keeping knowledge and the absence or inadequacy of the book-keepers; and price fluctuations.

The facilities offered by this company included the assistance by African Business Promotion Limited in connecting the african businessmen to the right buying points and guaranteeing their accounts with the wholesalers, thereby enabling them to obtain goods on credit.

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1. African Business Promotion Limited registered under the Uganda Company Act, Laws of Uganda, 1964 ed.

All the foresaid were accomplished through the extension of special facilities to the African businessmen.[2] There was the confirming facility which dealt with confirming indents for imports to enable importers buy overseas. Guarantee scheme offered guarantee to Groups of traders and limited liability companies which enable them to reach the best buying points and avail themselves of trading and cash discounts. It also offered Discounting Bills for traders who had government tenders; and also encouraged the formation of limited liability companies free of charge except for payment of the Government Stamp Duty. And finally it extended the Credit Guarantee Scheme to solve the problem of inadequacy of capital, under which traders were given goods on 30 - 60 days credit.

The benefits derived from these facilities were the general increase in stock of the African traders; overcoming of the quantity buying barriers in that the facilities enabled the traders to reach the bonfide wholesalers, who could give them the quantity discounts and would not inflate the prices. African Business Promotion Limited also appointed many more African traders as a gents for Nyanza products and later began supplying certain goods and services direct to wholesalers and retailers.

The African Business Promotion Limited gave way to the National Trading Corporation which was established by an Act of Parliament in Sept. 1966,[3] to pursue the following main objectives:

i) to engage in commerce and trade;

ii) to organize and effect exports and imports of such goods and commodities as the Board of Directors may from time to time determine, and the purpose, sale and transport of the general trade in such goods and commodities in Uganda or elsewhere.

iii) to promote or aid in promotion of, subject to proper and adequate safeguards to be determined by the Board of Directors, any person being a citizen of Uganda in trade and business.

iv) to do all such other things as are incidental or conducive to the attainment of the objective or any of them.

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2. Uganda Development Corporation Act 1952, Laws of Uganda 1964 ed. Vol. VIII, p. 5044.

3. National Trading Corporation Act, Laws of Uganda 1966, P.280

The share capital of the National Trading Corporation was £250,000 divided into 250,000 one Uganda pound shares, all of which were taken up by the Government. It was also exempted from payment of income tax, unlike other corporations, in respect of the discharge of its functions. By this same Act, all the assets, worth Us $ 3.32 million, 4 and liabilities including all officers and employees of the African Business Promotion Limited, were transferred to the National Trading Corporation.

It was, therefore, an organization which performed quasi-Government functions and acted as entreprenous between the manufacturer and the retailers, thereby ensuring an equitable distribution of goods and fair prices to the consumer throughout the country. Not only that, if also tried to break the then monopoly exercised by the Asian community in the import and distributive trade and thus enable the indigenous businessmen to effectively play their role in the trade and commerce of the country.

In order to achieve the above mentioned aims and objectives, the Government appointed the National Trading Corporation as a sole importer and distributor of a number of items it deemed fit for the National Trading Corporation to handle, viz, sugar, rice, cement, onions, salt, shirts, wines and spirits, steel windows and door frames, spring balances, fishnets, edible oil, Ghee and Hoes.[5] It also had the responsibility of involving effectively the indigenous people in the distribution of such commodities by appointing them as sub-distributors throughout the country to ensure that these commodities are taken to rural areas where the masses of the people live. Not only that, it also had a network of depots throughout the country, which acted as reservoirs for the above commodities. It also offered special assistence to Uganda traders in the forms of Credit Guarantee, Discounting and confirming schemes, Hire Purchase Guarantee, Commercial Bank Loans and the 80 per cent Loans Scheme and services like Auditor/Accountant and the Training Department.[6] It also developed export Markets in neighbouring countries of Kenya, Zaire, Rwanda and Burundi, in order to earn foreign exchange and to make extra, profits to further assist the development of African trade. To aid in maximum achievement of Africanization of trade in Uganda the Export and Import Corporation was established in 1970 in which certain firms and companies as well as

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4. National Trading Corporation Amendment Act, Laws of Uganda, 1969, p. 93
5. National Trading Corporation Amendment Act. p. 93.
6. National Trading Corporation Amendment Act, p. 94.

non-business institutions were specified as export and import agents of ahost of commodities and items in the country.

When the Military Government came to power in January 1971, a Commission of Inquiry was set up to probe into the affairs of the National Trading Corporation. It found out that the Chairman was incompetent, corrupt; politically minded; tribalistic; and that the Corporation was an area of political corruption and embezzlement leading to the misappropriation of funds to the tone of many millions of shillings.

The Government therefore deemed it necessary to establish the State Trading Corporation in 1972[7] with its major function stated as the sole exporters and importers of goods of any class or description for purposes of trade for the Republic of Uganda. This same decree also provided for the powers of the Corporation as follows.

(a) engage in commerce and trade;

(b) manage, develop, let, hire or buy, subscribe for or otherwise acquire or sell, or otherwise dispose of or hypothecate, or otherwise deal in immovable or movable property of any sort, including stocks, shares, bonds, debentures and securities of, and any interest in, any limited company;

(c) Lend or advance money to, or acquire an interest in, or provide or by underwriting or otherwise, assist in the subscription of capital for any undertaking engaged in or proposing to establish, or to expand or modernise, any business in Uganda.

(d) give guarantee in relation to the financing of any undertaking or the performance of any contract by any undertaking.

(e) promote or aid in the promotion of, subject to proper and adequate safeguards to be determined by the Board of Directors, any person being a citizen of Uganda in trade or business;

(f) acquire, take on lease, hold and enjoy any property, and sell let or otherwise dispose of the same.

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7. State Trading Corporation Decree 1972.

(g) with the prior approval of the Minister of Commerce appoint agents for carrying out any function of the corporation.

(h) build or purchase business premises in furtherance of its objectives;

(i) establish and maintain offices both in Uganda and abroad.

It also provided for the transfer of all assets and liabilities and any property vested in the Export and Import Corporation and the National Trading Corporation to the State Trading Corporation.

The subsidiary companies of the Corporation were:[8]

i) Transocean (Uganda) Limited.
(for forwarding, clearing and transporting of goods).

ii) Winits (Uganda) Limited
(importation of wines and spirits, distribution of Uganda Waragi and bottling of certain wines).

iii) Mercedes-Benz sales Limited.

iv) Equatorial Pharmaceutical Supplies.

v) Intra-African Traders (Rwanda) Limited.

FORMATION OF THE UGANDA ADVISORY BOARD OF TRADE.

It becomes, therefore abundantly clear that the express purpose for the establishment of African Business Promotion Limited, the National Trading Corporation and the State Trading Corporation was to Organise trade and commerce in Uganda. But there was a turning point in the history of the country with the coming into power of the military Government. The Government of the Second Republic clearly saw that political independence which Uganda had achieved in 1962, was completely meaningless without economic independence. Therefore, in August, 1972, an Economic War was declared. It primarily involved the expulsion of the non-citizen Asians from the country and, therefore, a

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8. Ibid

total Uganization of the machinery running the country's economy. Asian firms and businesses were allocated to Ugandans while British and Israeli firms and companies were nationalized by the Government. What the pre-military regime had endeavoured to achieve for decades was seemingly realized within a few months.

However, the 'Economic War' could not be accomplished without hardships. The Ugandan businessmen did not have adequate capital and readily available credit facilities extended to them. Therefore the Government launched the 'Mafuta Mingi Operation' which was concerned with the granting of loans to the now black Uganda businessmen. This was mainly channelled through the Uganda Commercial Bank, the Libyan Arab Bank and the Uganda Development Bank.

Another major cause of hardships was the lack of business experience of the new businessmen. This may be traced to the Asian traditional custom of treating businesses as a family affair, thereby effectively preventing indigenous Ugandans from acquiring business know-how. When Ugandans took over, this lack of experience caused a slow-down in the flow of imports and the outflow of exports. But the Government came to the rescue of the country by speeding up the imports of certain goods particularly salt and sugar, and finding ways of counter attacking these hardships. In April, 1974, a meeting of all traders and businessmen in Uganda was convened by the President, at the Kampala International Conference Centre. Each district submitted a memorandum listing the hardships they were meeting in running the abandoned businesses.

The most prevent ones were:-

a) shortage of goods
b) poor management of the State Trading Corporation
c) slow processing of the traders' applications for import licences.
d) Rigid Exchange Control Regulations
e) Inadequacy of Bank Loans.

This therefore led to the formation of the Uganda Advisory Board of Trade.[9] This Board was established by Decree Number 9 of 1974, to carry out

9. Uganda Advisory Board of Trade, Decree No.9, 1974.

the following functions:

1. a) to supervise, and as far as possible, coordinate the activities of the eight companies;

   b) to serve as adviser to the Minister of Commerce concerning the exercise by the Minister of any powers or functions relating to the specified companies;

   c) to provide such technical and managerial services to the specified companies as would enhance the efficiency of those eight companies; and

   d) to perform such other functions as the Minister of Commerce may, by statutory order, confer upon the Board.

2. It is also the duty of the Uganda Advisory Board of Trade

   a) to ensure that a specified company conducts its business on sound commercial principles;

   b) to ensure, in respect of trading activities of a specified company, that such company,

      i) takes such steps as may be necessary including the adoption of sound principles of pricing and cost structures, to avert excessive costs to the consumer;

      ii) avoids shortages in commodities which are essential for public health, the interests of agriculture of industry or otherwise for the economic development of Uganda;

   c) to ensure, in consultation with the Minister responsible for finance, that adequate provision is made for any foreign currency required for the operations of any of the specified companies;

   d) to advise on the criteria for the appointment and promotion of staff in the service of the specified companies, the terms and conditions of staff and the employment of staff in or for the purposes of the specified companies;

   e) to assist the specified companies in the formulation of the annual and long-term plans of the company including the preparation of estimates and the investment of funds by the company;

f) to give advice to the specified companies not inconsistent with the regulations of such company relating to financial administration and accounting procedures and to inspect at any time the accounts and financial records of the specified companies; and

g) to require any specified company to which the Board, such fees as the Minister of Commerce may, after consultation with the Minister responsible for Finance and the Minister responsible for planning, approve.

The Uganda Advisory Board of Trade was the only authority in the country responsible for the issue of both export and import licence [10] from August 1, 1974. "The would-be exporters shall have to submit their export licence application forms and form CD3 fully endorsed by their bankers to the Board. Export Licence application form can be obtained from the Board and Form CD3 will be available from any commercial bank". Not only that, but it also stated that, "In case of Agricultural, forestry, animal and fishery products, the export licence application form will have to be accompanied by the necessary export permit issued by the relevant Government institutions".

"Applications for import licence for raw materials will have to be submitted direct to the Uganda Advisory Board of Trade. Attached to the import licencing application for foreign exchange allocation in duplicate and four copies of declaration of payment for imports". All these forms were to be endorsed by the applicant's bankers. If and when the applications were approved, the would-be importers had to pay the necessary commission of one per cent of the CIF value to the Board at the premises of the respective company. He had also to pay import deposit to the Bank of Uganda before he received the approved application.

"After receipt of the approved application, the would-be importer shall be required to take immediately the necessary steps to ensure that the goods are imported with the minimum delay. Each import licence ~~issued~~ issued will be valid for six months only from the date of issue unless otherwise extended due to unavoidable circumstances".

10. Ibid.

On the other hand, the organization of the Uganda Advisory Board of Trade was such that it was based on Functional Departmentation. This was done by departmentizing it into eight companies as enlisted below[11].

a) Uganda Pharmaceuticals Limited which was formed from Equatorial Pharmacutical Supplies Limited. This company deals with the importation and distribution of Medical equipment, surgical equipment, surgical instruments, laboratory equipment, students' instruments, school chemicals, pharmacutical chemicals, patent preparations, hospital sundry requisites, veterinary medicines, veterinary feeds, germicides and pesticides.

b) Uganda Motors Limited formed from

i) Ecta (Uganda) Limited.

ii) Uganda Motor Spares Limited.

iii) Gomba Motors (1973) Limited, and

iv) D.T. Dobie and Company (Uganda) Limited.

This company was responsible for the importation and distribution of Motor vehicles both private and commercial, together with the spare parts.

c) Foods and Beverages Limited formed from

i) NTC Winits Limited, and

ii) Fresh Foods (Uganda) Limited.

This company dealt with the importation of wines and spirits; distribution of Uganda Waragi; bottling certain kinds of wines; distribution of food products and essential commodities like sugar, soap, salt and edible oil throughout the country. It had its branches and depots, opened in almost all the major and minor towns of Uganda for this purpose.

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11. Ministry of Planning & Economic Development, The Action Programme, 1977, p. 45.

d) Uganda General Merchandise Limited formed from

i) Uganda General Merchandise Limited

ii) Thompson Tucker (Uganda) Limited

iii) R.O. Hamilton (Uganda) Limited.

It imported any other kind of merchandise with which the other specified companies did not deal with.

e) Uganda Industrial Machinery Ltd., formed from Uganda Company Ltd. It imported Industrial machinery and spare parts, such as engineering and electric industrial and domestic products together with their ancillary equipment.

f) Uganda Hardwares Limited formed from General Equipment (U) Ltd. It imported hardware and building materials such as plumbing, fittings, GCI sheets, all types of nails, paints and other limits incidental there to.

g) Transocean (Uganda) Limited which dealt with the clearence of imports from Mombasa destined for Uganda and distributing them throughout the country; handling of goods to Sudan, Zaire, Rwanda, and Burundi; transportation of export cargo to Mombasa for the purpose of export; and the clearance of air freight from Entebbe Airport.

h) Intra-Africa Traders (Uganda) Limited which dealt with exportation of goods and commodities to other African countries as well as overseas.

Each of these eight companies had a general Manager occupying the highest organizational role.

Since its formation in 1974, the Uganda Advisory Board of Trade had two major problems and these are:

1. Lack of competent managerial manpower and dishonest attitude of the officials.

The managers of the eight companies considered themselves as civil servants or direct appointees of the government (political appointees). In that capacity they were governed by civil service regulations rather than commercial practices. They therefore had little interest or incentive to run their companies on commercial lines. Many of them had never had any business training. But because of political connections or nepotism they had been offered posts in these companies when they did not have sufficient training and experience to run them effectively and efficiently.

Due to lack of foreign exchange, companies such as Foods & Beverages, Uganda General Merchandise and the Uganda Motor Ltd., which imported essential commodities like salt, soap, sugar and cars were not able to bring these commodities into the country in sufficient quantities. The little that came in found its way into the black market due to the dishonest practices of the company officials. This was because prices of many of the commodities fixed by the government were far below the market price because of the scarcity of the commodities and because consumers considered these goods essential and so were prepared to pay any price for them. The company officials thus took advantage of this kind of situation and dealt directly with the desperate intending buyer at the price three or four times higher than the government price.

2. Lack of foreign exchange to buy the necessary input materials and enough commodities was the second problem. Uganda's export trade is based mainly on cotton, coffee and tea. These crops are now facing stiff competition in the world market with the result that their prices have drastically declined. This has rendered the Bank of Uganda helpless in giving financial assistance to the Uganda Advisory Board of Trade and its eight specified companies. Many of them may not function effectively as commercial undertakings for some time in the future unless foreign exchange becomes available.

To solve the problems of the Uganda Advisory Board of Trade will need the governments re-appraisal of its ability to effectively and efficiently manage public enterprises. The present involvement of the government in almost all commercial sectors has put much strain on the Ministry concerned. Some of the eight companies in the Uganda Advisory Board of Trade are very large. Before they were taken over by the government, they were run by Asians as separate commercial units. As stated in the Action Programme, "The present arrangement which puts the various business undertakings under the Board has tended to limit efficiency and revenue accruing to government institutions".[12]

In view of these shortcomings it is suggested that the government should limit its role in public enterprises. Some of the companies currently under the Advisory Board of Trade should be turned into limited liability public companies with 55% of the shares sold to the Public and 45% to the Government. Or, alternatively as stated in the Uganda People's Congress Party Manifesto, the original owners of some of these companies should be permitted to reclaim them.[12]

12. The Uganda Peoples Congress Party, Manifesto, 1980,p.32.

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FINANCIAL PERFORMANCE OF PUBLIC ENTERPRISES IN TANZANIA

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INTRODUCTION

In Tanzania, public enterprises are a permanent fixture on the economy. It is also incontestable that the same scene is true in Africa and in the Developing Countries in general. Both capitalist and socialist oriented governments, in these countries, have used and are using the mechanism of public enterprises for promoting, forging and pioneering development in their respective countries. The extensity, the varying aims and objectives and the varying forms of organisation of these enterprises in different countries have given rise to a number of conflicting definitions of "public enterprises." For the purpose of this study, these enterprises are defined as production and commercial organisations that the government either owns or in which it has majority participation and that are run on a commercial basis. Their accounts are not integrated into the national budget.

There is a widespread interest in Tanzania on the subject of public enterprises (parastatals). Politicians, academicians, managers and the general public have all questioned the performance of these enterprises which is understandable for since the Arusha Declaration in 1967, over fifty percent of the economy in the commercialised sectors has come under public ownership and control through public corporations.

The extent and scope of public corporations in Tanzania show the important place they occupy in the economic development of the country. The urgency and necessity of economic development in the Third World Countries in general, and Tanzania in particular, demand that the corporations need not only to fulfill their assigned roles and objectives, but also to minimise costs with the aim of creating and increasing surplus. It is the purpose of this paper to evaluate the performance of these corporations in Tanzania.

The paper is in two broad sections. Section one is devoted to a general overview of public corporations with references to other Third World Countries. Their roles, extent and scope of, and the reasons behind their formation are discussed. The section also discusses the necessity of positive performance on the part of the corporations in relation to surplus creation: owing to the latter's important contribution towards economic development through investment. The second section evaluates the performance of the corporations, and discusses the factors which contribute to the poor performance of the corporations.

A. AN OVERVIEW OF PUBLIC CORPORATIONS

The developing countries, after attaining political independence, realised that economic independence was the more important and urgent requirement. To attain that end, governments resorted to the creation of public corporations in an attempt to promote self-sustaining economies. The fundamental differences between developing countries in socio-economic development, size and in density of population and socio-political orientation are reflected in the range, number and scope of their public enterprises. Despite these variations, the purpose is basically the same - promoting economic development. This primacy of objective arises out of the fact that colonialism and neocolonialism have remained as the main causes of economic backwardness of the peoples of Asia, Africa and Latin America. The creation of public corporations could thus be seen in the light of trying to combat the above situation. This task is important and necessarily warrants an examination of certain basic issues relating to public corporations in the context of economic development.

1. The Role of Public Enterprises

In Tanzania, during the years after the Arusha Declaration in 1967, public corporations assumed a new and an extremely important role in the country's economic development effort. New in the sense of effecting socialist reconstruction and important because of their role as engines of economic development. It's because of these roles that capital formation increases has been accounted for by the public sector. In 1965 the private sector accounted for about 60 per cent of all monetary fixed capital formation but this share had declined to 30 per cent by 1975. The ration of public sector fixed capital formation to monetary capital formation rose from 40 per cent to 73 per cent during the same period, i.e. from T.Shs.389 million to T.Shs.2,057 million (National Accounts, p.31).

A closer look at the objectives of the public enterprises system in Tanzania will elucidate its central place in national planning. The objectives, according to the Arusha Declaration, are as follows:

i) To achieve economic justice by controlling the principal means of production.

ii) To ensure the well-being of all citizens.

iii) To prevent the exploitation of one person by another or one group by another; and

iv) To prevent accumulation of wealth to an extent which is inconsistent with the existence of a classless society.

The above objectives are socialist in form and content. Socialist development, first and foremost, calls for the control of the major means of production by the state; and this in turn determines the relations of production. State control leads more easily to accomplishing objectives two to four. It also widens the extent of planning; and as a result places priority on central planning. In compliance with the foregone, most investment in industry was planned in the public sector under the second Five-Year Development Plan; only 16 per cent of the total industrial investment was left to private enterprise. The plan document stated that "the role of the public sector has been extended considerably as a result of Arusha Declaration", and that "the private sector cannot be relied upon to provide the main thrust in directly productive investment", (Vol.I, p.14).

To implement the above, the Government nationalised a number of institutions, both service and "productive", acquired equity participations in others and created specialised public corporation like Tanzania Tourist Corporation (TTC), the National Agricultural and Food Corporation (NAFCO) and Tanzania Wood Industries Corporation (TWICO). Prior to the new set up, all the projects which fell under these mentioned corporations were being carried out by the National Development Corporation (NDC), which was established in 1964 by Act of Parliament (no.69). NDC is the largest parastatal organisation (holding company) in the country with total assets value of T.Shs. 383,791, 214 in 1976 (NDC, Twelveth Annual Report, 1976). The value of these assets indicates the importance of NDC in particular, and public corporations in general, in the economy of Tanzania.

So far, we have been providing an answer to the question, why public enterprises in Tanzania? We also need to know, generally, the reasons behind public corporations elsewhere. The most often cited reasons are these:

1) Governments have specific developmental priorities and objectives which need public rather than private attention. The current emphasis on rural development in Tanzania, for example, led to the formation of the Tanzania Rural Development Bank (TRDB), with the primary task of financing rural projects. Other development priorities like the promotion of import substitution, the localisation of the labour force, the acquisition of foreign aid and cooperation, and the injection of development into certain specific fields of economic activity, necessarily calls for government control. These are common in many countries, e.g. India, Kenya, Nigeria, Turkey, Uganda, although all the priorities mentioned differ in each country. For example, in Kenya, Uganda and Nigeria, Africanisation ranks high on the list of priorities. For the remaining countries other priorities become more applicable.

2) Government need to supply the developmental initiative. This ranges from providing the initiative for investment and the promotion of industrial activity to developing infrastructure for basic activities, e.g., electricity, transport, communication and agriculture, and to supplying the required managerial capability to enterprises.

3) Governments are able to pursue policies designed to redistribute incomes, create employment and establish programs of social security through the medium of public enterprises. This applies also to Tanzania, where the First Five-Year Plan for economic and social development (1964) aimed "to see economic growth contributing to a more equitable distribution of income in Tanganyika society" (pp.3 and 6). The redistribution can be effected in the following ways:

(a) by keeping higher salaries under check and raising wage levels. A progressive tax system and the establishment of minimum wage policies are efforts toward that end;

(b) by carrying surplus labour as a disguised means of social security. This strategy tends to water down the performance of the corporation for it tends to raise costs (wages and salaries) at the expense of profit;

(c) by offering products at concessional prices to poor customers. For example, providing fertilizer to peasants at subsidised prices in Tanzania reflects the applicability of this scheme.

4. By introducing public corporations as egencies of development in an underdeveloped region. Corporations like Sudene, IRI and Konkan serve such purposes in Brazil North Eastern Region, Italy Southern Region, and India Western Coast region. In Tanzania the second Five Year Plan elaborates regional development through public sector investment by stressing, "that the choice of sub-optimal location for an agricultural or industrial project, in the interest of regional equality may involve a cost in terms of efficiency" (p.2).

The foregoing selected reasons have shown that the governments of the developing countries, including Tanzania, have been inspired by general objectives such as the promotion of economic and social justice and the acceleration of the developmental process, and perhaps favoured public corporations as a means of achieving the stipulated goals and intentions. Countries which have adopted socialist policies and a socialist political orientation tend to utilise public enterprises as the principal means of achieving the transition to socialism. But almost all developing countries have attempted to subordinate private corporations to public enterprises in certain fields of activity in the pursuit of such national goals.

It seems likely that public corporations have occupied and will continue to occupy an important and expanding position in the economies of the Third World Countries. But this important and expanding role will be justified only if such corporations contribute to the development of the national economies. Unfortunately, this often has not been the case. In many countries there is a notable difference between objective and performance. As J. Udoji comments:

> If the rate at which these bodies are being created and financed bears any relationship to the economic growth of the countries or the success of the bodies themselves, at least some of the countries would have been near the stage for an economic take-off. The experience, however, at least in West Africa, has been in the opposite direction..... (They) have done so badly that several public inquiries have been conducted into their affairs.

Although Udoji refers specially to West Africa, his comments can be generalised to Tanzania and many other Third World countries. The question arises why these public enterprises have failed to live up to their expectations. Is it because of inadequate financing, poor systems of corruptive practices? Or are there more fundamental and structural reasons? One purpose of this paper is to examine the performance of these corporations in Tanzania and thereby to provide some answers to these questions.

2. Extent and Scope of Public Enterprise

In Tanzania, not only has the public sector been expanding it has also been diversifying. According to the Second Five-Year Plan, public sector investment was projected to rise from 30 per cent in 1964 to 70 per cent in 1973. The upward trend is reflected in the form of transfers to parastatals as well as in fixed capital formation. In terms of transfers they increased from T. Shs. 127 million in 1964 to T. Shs. 211 million in 1971 (Annual Plan for 1972/73,p.2). An increase of 10.7 per cent was realised in parastatal fixed capital formation. The increase was from T.Shs. 515.5 million in 1973 to T.Shs.570.8 million in 1974 (Tanzania, Economic Survey, 1974/75,p.2

Viewed from another perspective, total public sector capital stock continued to rise and reached T.Shs.2,077 million or 70.7 per cent of total national stock. In 1972, it was T. Shs.1,809 million, an increase of 14.8 per cent (Annual Plan for 1976/77,p.2). The expansion in the public sector, a trend which is expected to continue, widens the role of the corporations in the economic development of Tanzania. This is emphasised by the point that the expansion has penetrated a number of sectors in the economy, that is, diversifaction. Manufacturing, processing and mining sector, the traditional sectors dominated by parastatals have seen other sectors like agriculture, livestock, natural resources, trade and tourism, water, power, communication, and administrative, giving rise to their parastatals. Presently Tanzania has a total of three hundred and eighty parastatal organisations. One can thus safely claims that parastatals dominate the Tanzania's economic scene.

The dominance of the public sector in Tanzania is a factor of the socialist ideology, but the public sector also plays an important role in some other developing countries. Iran and Pakistan show more or less the same trend. For Pakistan, public sector investment rose from 28 per cent in 1949-1950 to 48 per cent in 1964-1965 (UN,p.8). In Iran, the sector

Table 1. Parastatal Contribution to National Income, By Sector 1976/77 - 1980/81, Shs ('000)

Sector	Estimated Income
Agriculture	885,334
Livestock	195,779
Natural Resources	2,300
Minerals	174,500
Industries	2,049,248
Trade and Tourism	314,600
Water	23,965
Works	568,948
Power	345,262
Communication & Transport	659,688
Education	29,400
Health	39,957
Administrative & Others	494,240

SOURCE: Third Five Year Plan, Vol.I,p.10.

B. THE PERFORMANCE OF PUBLIC ENTERPRISES

A number of studies are being carried by either individuals or institutions to evaluate the performance of the public sector in general, or parastatals in particular. These studies were either at the national or at the district level. One of these studies by S.M. Wangwe revealed that capacity utilisation in selected industries was very low. In some cases, the level was as low as 35 per cent of the actual capacity.

Another study by J. Jedruszek, aimed at evaluating the trends in productivity and employment in four industrial divisions: mining, manufacturing, public utilities and construction; for the 1967 - 1977 period conveyed the following message. One, that there was a deceleration of growth from 13% per year in 1964 - 67 to 2.5% in 1972-1977 with an average of 3.8% per year in the whole period 1967 - 1977. Second, that loss due to decrease in productivity in the four industrial divisions amounted in 1977 to 285 million shillings in 1966 prices and transformed to 1977 prices to 678 million shillings; this means 19.2% of the actually observed value of industrial output in 1977.

accounts for 37 per cent of investments in agriculture, 42 per cent in oil and gas and 99 per cent in water and power (UN,p.9). The trend would tend to continue, perhaps at a faster rate, especially in those Third World Countries which intend to distribute more evenly both incomes and development efforts among the people. Such a trend will necessarily mean an expanding role of the public sector in the economies of these countries. Although it's difficult to establish if there is an optimal balance between the public and private sector in an economy: that depends upon concrete situations prevailing in the country in question as well as its political and economic aspirations, it's worth saying that thorough planning should preceed their establishment and/or expansion.

3. Surplus Generation by Public Corporations

One of the principal components of economic development, be it capitalist or socialist, is investment. But investment eventually comes out of savings. In promoting domestic savings and ensuring proper investment, public enterprises have an important role to play. They must operate in a way that will raise surpluses, which will be available for investment in the same enterprise or elsewhere in the economy. Profit is an important goal, though not the only one, of any business organisation, be it service or productive venture. For example NDC has categorically stated:

> NDC is intended to function as a profit-making organisation; it's charged to do all such acts and things as may be necessary to uphold and support the credit of the corporation and to obtain and justify public confidence, and to avert or minimise any loss to the corporation (NDC, 1976,p.1).

Surplus is a crucial component of economic development of any country. There is a wrong belief by politicians and some managers of public corporations, that profit in socialist economies is evil. This is a wrong belief because for extended reproduction to take place in any country, reinvestment is necessary.

The only difference between profit in capitalist and surplus in socialist economies is the form it takes in the two societies. Profit is the economic law of capitalism and the motive force behind any type of investment. It thus becomes a means for and the consequence of the exploitation of labour. Moreover, because of the antagonistic relations of production in a capitalist economy, profit is appropriated by those who own and control the means of production. Socialism entails the emancipation of the workers, and the surplus that is generated is appropriated by the state to further the welfare of the masses. The necessity and importance of profit remains but its character differs within the two societies.

The failure to recognise this fact may be one of the reasons behing the poor performance of the public sector. For the survival and growth of an enterprise, surplus creation is a necessity. Survival takes place so long as breakeven is achieved at that point where cost equals revenue; but for growth to take place, which is the desired end, revenue must surpass costs.

In an economy dominated by public sector, as in the Tanzania case, surplus from this sector remains the most important source of public finance after taxation, and consequently, the determinant of the rate of growth of the economy. This role is well presented in the Third Five-Year Plan where parastatal operations are estimated to have generated an income, of course a great portion of this being surplus, of T.Shs.5,707 million between 1976/77 and 1980/81. Perhaps detailed Table 1 showing the contribution of parastatals in each sector could be more illustrative.

The estimated income will be realised only if the sectors achieve their expected performance. To a great extent, effectiveness and efficiency on their part will determine the performance results. Adverse performance will deter the development of projects, for one cannot invest out of nothing.

Although public corporations need to operate efficiently the performance of the public sector in West Africa, as summarized by Udoji, which is also typical of developing countries reveals the opposite. In Tanzania for example, a number of studies have been carried in the public sector at national level and the above picture became applicable (S. Wangwe, 1976). At district level, the findings were that "only 46 out of 71 District Development Corporations in the country can run without government grants for paying the salaries of their general managers and chief accountants" (Daily News, June 22, 1977). The two studies, the latter being the Prime Minister's report to the budget session of the Parliament in 1976, reflect the poor performance of some of the public corporations. The succeding section looks more closely at this performance.

Tanzania Investment Bank (TIB) and the National Institute of Productivity (NIP) carried out studies in a number of manufacturing units. The purpose of the study was to establish some productivity norms in these industries. In the course of this undertaking they discovered that a number of industries were suffering from "under capacity utilisation and there was a general trend of rising operating costs. Which were attributed to consideration increase in payroll costs, including the cost of recruiting new expatriate staff, over employment in some establishments...." (TIB, Annual Report, p.9P.

At the district level, in evaluating the performance of the District Development Corporations (DDCs), my general finding was that, the corporations were not adhering to sound financial management principles (H.P.B. Moshi,1978).

The implication of the above studies on the financial performance of the corporations is that their profitability is either low or in some cases, it is not achieved. Although the criterion of profitability, in evaluating performance, suffers from the drawback of not being a conclusive measure of efficiency, the fact that the corporations ought to conduct their activities at the lowest cost possible over-rides the drawback. Again, despite the fact that public enterprises tend to be guided more by development objectives than by pure profit motives must never waterdown the need for greatest economy and efficiency in utilizing the country's resources in the process of production.

A poor country like Tanzania, as is true of the developing countries, cannot afford to waste and misuse resources; if at all we are serious with economic development. President Nyerere was aware of this danger when he cautioned that "corruption, theft and abuses of public money and goods and other abuses of public office or slackness in fulfilling the duties for which the people are being paid, could undermine our march towards socialism."

The financial performance of the enterprises audited in the 1978/79 period mirrors the following picture: "The out of the total 247 audited accounts during the year, there were about 196 trading parastatals and the remaining were non-trading and service institutions. Out of 196 trading parastatals, the accounts of 81 such parastatals disclosed losses" (TAC, Annual Report,p.9).

In terms of number and the magnititude of the losses made, parastatals in the Ministry of Agriculture ranked highest. 30 parastatals, under this Ministry incurred losses, ranging Shs.98.68 million (Tanzania Cotton Authority to Shs.18.78 million (cashewnut Authority of Tanzania). High administrative costs, lack of infrastructure - transport and storage facilities etc. contributed most to these high assess.

The financial performance of the district based public corporations (DDCs), does not portray a very different picture from the above. "52 DDCs out of 68 made losses during the financial year (1978/79). Most of them were continuously making losses ever since they started their activities. In some cases the loss during the year and the accumulated losses have completely wiped off their capital" (TAC, Position Paper on DDCs). The causes for so poor a performance were cited as: Irregularities in payments, misuse of funds, lack of control, liberal credit terms to customers, etc. succeeding section attempts to discuss the general factors attributed to the pooer performance.

1. Causes for the poor performance

Although it is difficult to discuss specific causes for each corporation separately, because each one has its own background, resources, and problems, only the common causes will be discussed.

There has been a number of explanation about the poor performance of public enterprises. One argument is based on the allegation that they do concentrate on infrastructural and slow-yielding sectors of activity and that they operate on low profits if not on losses as a matter of public policy. Although this could be true in a few countries, not in Tanzania where the sector is so diversified and the government has raised so much hope in the public that large surpluses will be generated from these enterprises.

Another argument has focused on the pattern and nature of public enterprises relationship with multinational corporations, partnership and management contracts which are exploitative leading to the drain of enterprises' surplus. It is true that the dependency of the third world economies on developed economies, in terms of industrial inputs and spare parts demands adequate availability of foreign exchange to purchase such inputs and services. Inadequate supply necessarily leads to under capacity utilisation in such industries. The low foreign reserves in Tanzania, especially after the war, made some industries to either close down temporarily or to operate on very low capacity. The Mwanza Textile Mills (Mwatex) and the General Tyre, are

are cases in mind.

The causes of poor performance discussed so far have not addressed themselves to the internal operations of the corporations to see how efficiently or inefficiently their operations are being planned, organised and coordinated. We therefore intend to discuss in some detail the problems of management, control and accountability in public enterprises.

The most often cited problem of the public enterprises is that of management. No doubt management is an important component of any form of organisation. This problem is a factor of many causes: One, that some corporations were started without proper planning in terms of manpower-resources availability or in some cases there was no vigorous manpower development and training. Second, that most of the top management positions are by appointment and not by merit or trade of training. Third, that in some cases trained manpower exists, it is either misplaced or misallocated. Lastly, that nepotism and technical know-how are never less common.

The above causes thus undermine the assence of managing in these enterprises. The role and purpose of management in an organisation is that of applying management concepts and principles with the aim of achieving maximum outputs, be it material or social with minimum inputs, while at the same time satisfying the needs of the consumers. This is the essence of managing. Inputs and outputs, these two concepts have one essential element embodied in them, that is cost. In a situation where the essence of managing is undermined financial indescipline creeps in. The net effect is management by crisis which is nothing more than ad hoc planning, lack of coordination and control of the enterprise activities. In such a situation, wastage, negligence and corruption would never fail to get their share.

The problems of control and accountability are enormous in public enterprises. The Parliament, the Board of Directors and Auditing do control the activities of the corporations, in turn, the corporations are accountable to above. How effective are the controls? The Parliament controls the activities of the parastatals through the Committee on Parastaral Accounts which examines the accounts of parastatals and the auditors report thereon. This committee was formed due to deterioration in the accounts of parastatals and lack of an appropriate and effective organ to check and arrest the situation. Experience has shown that this committee is effective where accounts for scrutiny exist and when the "concerned" attend sessions.

Another standing committee of the Central Committee of CCM has been created to deal with matters concerning parastatals. This committee is known as the Standing Committee for the Supervision of Parastatal Activities.

The effectiveness of the Board of Directors is questionable. Their role is that of providing policy guidelines to the parastatals, appointing senior management personnel and reviewing and appraising the problems and performance of their organisations. "Some Boards are inactive and do not hold formal meetings, sometimes even for one year." The causant of this phenomena ranges from lack of seriousness in performing their assigned roles due to being "too-busy officials" either because of being a member in various boards or because of other "pressing" assignments.

Auditing is conceived, correctly of course, as the best approach to safeguard public funds invested in these parastatals. But this is true only when timely and accurate financial statements are available. It is also true only when the constructive suggestions made by the auditor to obviate or minimize weaknesses in financial reporting are implemented.

About 100 parastatals were in areas in the preparation of their accounts for one year or more after the closing of their respective financial years. The major reasons for the delay in the preparation of accounts by the parastatals are inept management and lack of adequate and competent accounting personnel (TAC, Annual Report, p.7).

As far as accuracy of the statements is concerned, out of 247 accounts of parastatals certified during the year (1978/79) 76 accounts got unqualified audit reports and 138 got qualified reports. The qualified reports failed either to disclose some important items or departed from the generally accepted accounting procedures on some vital items.

The statutory regulations on parastals have created, yet another control loophole. Parastatal organisations are created under three main categories of statutes: Companies Ordinance (Cap.212); Public Corporation Act, 1969; and Special Acts of Parliament. "The Orders promulgated under the last two categories are not detailed enough with regard to corporate matters e.g. keeping proper books of accounts, audit requirements, etc. This apparent ambiquity has encouraged these parastatals to successfully argue that they are not legally bound to observe the regulatory provisions contained in the Companies Ordinance."

Apart from the enumerated weaknesses in public enterprises, they (enterprises) have an advantage, which is also a great weakness of control of having unrestricted access to the government budget. Disregarding the fact that government finances these institutions through the budget, the financial and non-financial institutions, it also finances in some cases, the cost of inefficiency in these enterprises. Through subsidies, writing-off loans, payment of some service charges - audit fees, as the case is for the DDC etc. Although in some instances the government has to finance and refinance these enterprises, it is necessary to tighten the bolts at certain stages if slackness and don't-care-attitude, on both management and workers, are to be minimised.

2. CONCLUSION AND RECOMMENDATIONS

Public corporations have increased their economic and political importance in Tanzania and in many Third World Countries. In Tanzania the corporations have penetrated every sector of the economy. No doubt that public enterprises have an enormous potential for development. This potential can only be realised if their financial performance is positive. "It is true that many of them have performed quite well, it is equally true that others have not fared so well." It is necessary therefore to take appropriate steps to make the latter group more operational effective.

This will, however, require certain adjustments (policy and strategies) both at the macro and micro level. The "two-level" consideration is imperative if economic efficiency is to be improved. Perhaps the following recommendations could be of assistance. One, planning both at the national and corporate level should be improved. Establishment of new and expansion of the existing parastatals should be preceded by effective planning in terms of resource availability-manpower and otherwise and testing of their economic ar technical feasibilities.

Second, the improved performance of the corporations will depend, to a large extent, upon the quality and quantity of manpower available. Training should thus receive priority in this organisations. The ~~what~~ work of training should reflect the skills-deficiency in individual organisations. Nevertheless, managerial trades, especially in finance need emphasis. Connected to the issue of manpower is the issue of motivation. Unless incentives are introduced in the enterprises, exodus of the trained manpower to the private sector cannot be avoided.

Third, control is necessary if the assets and the funds invested in public enterprises are to be safeguarded. To this effect the government (s) needs to re-examine the Acts of "Establishment" inorder to formulate uniform, specific and effective control measures. For example, preparation and audit of financial statements should be a legal obligation of all the enterprises. Again, the composition of the Board of Directors should be re-evaluated and minimum number of meetings per period should be stipulated and reinforced. The unrestricted assess of public enterprises to the government budget needs appraisal. It is recommended that the government spells out conditions under which refinancing and subsidies will be accommodated. The conditions should include: period of existence of the enterprise, its efficiency and the impact of uncontrollable factors on performance of the enterprise.

The implementation and success of the above recommendations will depend upon the cooperation and coordination between the Party, Government and the Corporations involved. It would be necessary for all parties concerned to take appropriate steps to improve the operational efficiency of public enterprises and of the economy at large.

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AN ASSESSMENT OF THE PROFITABILITY OF MAJOR STATE ENTERPRISES IN UGANDA, 1962-1980

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INTRODUCTION.

In a Walrasion type general equilibrium model a theoretical case can be made for an economic system based entirely on free enterprise.[1] If the conditions for general equilibrium are fulfilled viz many buyers and sellers in every industry, perfect knowledge, perfect mobility, profit-maximisation and utility maximisation by all firms and consumers respectively, complete divisibility of all economic goods and no externalities, if these conditions are fulfilled then social welfare is maximised and a public sector is not needed. However if these conditions are not satisfied then social welfare is not maximised and there is a basis for public intervention.[2]

In their Public Finance in Theory and Practice[3] Richard Musgrave and Peggy Musgrave pose the question: Why is it that a public sector is required? Why is it that a substantial part of the economy is subject to governmental direction even in a supposedly free enterprises system such as that of the United States? Not only does governmental direction reflect "the presence of political and social ideologies which depart from the premises" of a free enterprise economy, but there is the added fact that the government is needed to "guide, correct, and supplement" the market mechanism.[4] Thus the reason for government activity are the provision for social goods, adjustment of income distribution and stabilization of employment, prices and balance of payments which the market mechanism alone may not optimally achieve.

If it is accepted that there are indivisible products, externalities, and imperfect markets, then this breakdown of the conditions for competitive equilibrium may be seen as the justification for the public sector. Additionally, the ideological biases of the society will set the balance between the public and private allocation of resources.

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1. Bernard P. Heber, Modern Public Finance, Richard R. Irwin, Inc. Homewood, Illinois, 1967. pp. 21-23.
2. Ibid., p. 23.
3. Richard A. Musgrave and Peggy B. Musgrave, second Edition McGraw-Hill Book Company, New York 1976, p. 5.
4. Ibid.

State Enterprise in Uganda

The data available indicate that there were 34 statutory corporations and government companies in Uganda in 1977. Of these 5 were non-profit making while the remainder were profit making establishments. Out of these 29 profit making statutory organisations 11 were service establishments, 7 were in manufacturing while 5 were financial institutions (including Bank of Uganda.) The other six consisted of 3 marketing boards, two tea estates management authorities and one farmer cooperative. It is also noteworthy that one third of all the establishment were holding companies with a large number of subsidiaries. For example the Lint Marketing Board had 17 subsidiary companies while the Wood Industries Corporation had 13 and the Uganda Development Corporation had 11 subsidiaries and 7 associated (partially owned) companies.

Organisational Structure of the State Enterprise

The majority of the state enterprises in Uganda were formed during the 1960s. Virtually all of them were modelled after the Uganda Development Corporation and the Lint Marketing Board. These two organizations were already in existence as government owned and controlled enterprises during the colonial period. The Uganda Development Corporation, for example, was formed under the UDC Act of 1952. Subsequent statutory companies adopted a structure that resembled that of the Uganda Development Corporation.

The basic structure consists of a hierarchy headed by a Minister of the Uganda Government under whom the corporation's activity is considered to fall. Thus the Dairy Corporation falls under the Minister for Animal Industry while the Produce Marketing Board falls under the Minister for Cooperatives and Marketing. Under these parliamentary acts, the relevant Minister has the responsibility for nominating the Board of Directors including the chairman. Following the naming of the Board, the latter proceeds to appoint the top management. In practice the chairman of the Board is normally the general manager and he appoints the staff needed to work under him. The most important of these is almost always typically the chief accountant. It is also note-worthy that in the instances where the government is only a partial shareholder, as for example in the Libyan Arab Uganda Bank, the other part-owners have the right to select some of the people in top managerial positions. In the Libyan Arab Uganda Bank which was inaugerated in November 1972 and subscribed by the by the government of Libya through the Libyan Arab Foreign Bank for [illegible]

51 percent while the Uganda government paid 49 percent of the capitalization, the bank was actually almost entirely controlled by Libyan officials.(5) In contrast, the Uganda Development Bank which was also formed in November 1972 but which is fully owned by the Uganda Government, had its entire Board selected by the Minister of finance. Its composition was entirely Ugandan, but the basic organizational structure was the same as the others.

The evidence obtained on the major corporations suggests that the General Manager and his staff wield the most influence over the affairs of the corporation. Whereas the Boards are usually appointed for a two-year- term, there are many instances of managers and accountants who have stayed on their jobs for more than 10 years. The managers thus tend to have operational decision-making power while the Board of Directors appears transitory or even merely honorary. There are also reported instances when corporations have operated without a Board of Directors especially when a Board's term ends and the Minister fails to appoint a new Board. This was the case in 1968 and 1970 when the Produce Marketing Board operated without a Board of Directors. There is also an increasing body of evidence to suggest conclusively that power over the affairs of the state enterprise in Uganda has become increasingly concentrated in the manager and his immediate stewards that management has become virtually immune from public control as specified by the statutes.

In addition to the powers exercised by the minister concerned, every statutory corporation is required to report annually to the Secretary to the Treasury in the Ministry of Finance. The report must include an audited balance sheet, income statement and other accounts. The specific date for each corporation's report is specified by its statutory act and as a result of the report the Minister of Finance requires the company to pay to the treasury if a profit was realized while the ministry may pay the company for losses sufferred during the year.

<u>Methodology</u>

This study is based on data for seven out of the 29 profit making establishments <u>i.e</u>. approximately 25 percent of the profit making statutory corporation for which data were available. Of these seven, three are banks, three are marketing boards and one is a manufacturing corporation. The data

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5. For example, in 1975 the Board of Directors consisted of five members. Of these top three positions on the Board namely the chairman, Deputy chairman and Managing Director were Libyans. See the <u>Annual Report and Accounts, 1975</u>.

collected on each organisation include annual profits and/or losses, issued capital, assets, investments, and dividend payments. The data vary considerably as we look at the various companies; However we have obtained annual profits and/or losses on all the companies in our sample. Although our purpose is to determine basic trends in the profitability of these companies in the 1962-1980 period, data are not available for all these years. Conclusions about performance are therefore based on the data for the years for which information was available.

We proceed with a case by case analysis and then integrate our results at the end into some generalisations which appear to have characterised profit performance of public enterprises in Uganda during the indicated period.

All the seven state enterprises on which this study is based were either fully or partly backed by capital from public funds. Therefore it was stipulated that they would report to the public Treasury annually thus ensuring scrutiny of their accountability and contribution to the public. Their success in contributing to the development of Uganda may be determined from their reports to the Treasury and the public at large.

Ideally, the success of a state enterprise is determined by the cost/benefit ratio. Where the ratio exceeds unity over the long term the corporation is a failure and vice versa. Such a judgement of course presumes a reliable calculation of all significant costs and benefits to the public.(6) As a practical matter meaningful cost-benefit analyses are so difficult to calculate that one must weigh the costs against the benefits of preparing them.(7) Representative indicators of the costs and benefits of state enterprises may provide a basis for judging their role in development and their success or failure in that process. Accordingly, the difference between revenues and expenses which the state enterprise shows in the annual income statement will be assumed here to represent the "net value - added" by that enterprise to the national product. Examination of the longterm trend in the difference between the annual total value of production and the costs of materials purchased from other firms provides a rough estimation of the firm's

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6. Roland N. McKeen, 'The Nature of Cost-Benefit Analysis' in Edwin Maufield (ed.) MicroEconomics, Selected Readings 3rd edition, W.W. Norton & Company, New York 1971. pp. 509-518.

7. Ibid. p. 511.

contribution to Uganda's economic development. Where the corporation is generally profitable this is equated with success in adding to the GDP while persistent loses imply failure to do so.

CASE STUDIES

1. The Uganda Development Corporation (UDC)

This is one of Uganda's oldest and largest corporations. Table 1 shows the profit and loss position of the UDC from 1971 to 1977. It is clear that this corporation operated at a loss throughout that period. By December 31, 1977 the accumulated losses of the UDC amounted to 128 million Uganda shillings. Since the total share capital of this corporation was 159 million shillings this means that its accumulated losses at the time were approximately 80 percent of its share capital. The accumulated loss was also larger than its current assets of 116 million almost 90 percent of fixed assets in 1977. To the extent that profit - making state enterprises are supposed to be self-sustaining, the UDC was an abysmal failure during its third and latest decade of existence.

Table 1: Profitability of the Uganda Development Corporation (UDC), 1971 - 1977

Year Ended 31st December	Profit (Uganda Shillings)	Loss (Uganda Shillings)	Issued Share Capital (Millions of Shillings)	Total Assets (Millions of Shillings)
1971		3,467,649	154	669
1972		13,071,016	155	773
1973		5,305,716	159	327.5
1974		6,295,074	159	319
1975		11,362,088	159	193
1976		26,817,817	159	139
1977		9,499,476	159	144

Source; UDC, Annual Report, Various years

It is also noteworthy that there was drastic decrease in the assets of the UDC as more and more of its subsidiaries broke away from the holding parent company to become independent organizations. Some officials of the UDC give this break away as the reason for the losses. However, we have not found any specific analysis by the UDC staff to support this argument.

2. The Produce Marketing Board (PMB).

The Produce Marketing Board was formed under the Produce Marketing Board Act of 1968. Modelled after the Lint Marketing Board and Coffee Marketing Board it was intended to assist individual farmers as well as farmers' cooperatives to market their produce more efficiently. The act provided for the establishment of a Produce Price Assistance Fund to be accumulated from the profits of the Board and to be drawn on to supplement farm prices should they fall below acceptable levels.

In 1968 the government purchased 125,500 shares at Ushs 20 each thus contributing capital of Ushs 2,510,000. The government increased capitalisation to Ushs 5 million in 1969 and to 7¾ million by 1972. The 2¾ million shillings appropriated by the government in 1971 and 1972 were specifically ear marked to purchase storage facilities.

The profitability of the PMB from 1968 to 1976 is shown in Table 2. The Board obtained revenues from the sale of "controlled agricultural produce" a classification that covered virtually all food crops and tobacco. They only exception was onions, potatoes and fruits for which the Board lacked cold storage facilities to prevent spoilage.(8) It is evident from the figures in Table 2 that the PMB realized profits in 1968 and 1969, and from 1971 to 1975, while it suffered its first loss in 1976. However, the loss in 1976 was so large that it alone was equivalent to over 60 percent of the total profits earned by the PMB since its inception in 1968. Not withstanding this failure, it seems fair to say that the PMB operated successfully during its first decade of existence.

3. Lint Marketing Board (LMB).

The Lint Marketing Board was founded by the British colonial administration after World War II. Its major purpose appears to have been to provide an effective administration of the cotton industry in Uganda. By placing responsibility for the growth, expansion and marking under one organisation that was free to act as a quasi-private enterprise, it may have been hoped to achieve a more efficient cotton industry. Under the Lint Marketing Board Ordinance, No. 33 of 1949 all the lint and seed produced in Uganda had to be sold to the statutorily established Board at prices fixed by the government.

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8. Discussions were undertaken in 1970 between West Germany and Uganda to construct cold storage facilities. The negotiations followed recommendations made in a study by UN - FAO experts. However, these plans appear not to have been implemented.

Table 2: Profitability of the Produce Marketing Board, 1968 - 1976.

Year	Profit	Loss	Issued Share Capital
1968	Shs 72,962	Shs	Shs 2,510,000
1969	758,306		5,000,000
1970	NO	Board of Directors*	
1971	2,097,540**		7,000,000
1972	2,171,091		7,750,000
1973	6,339,707		-
1974	3,197,190		-
1975	904,962		-
1976		10,584,219	-

* By law no accounts could be issued without the signatures of at least two members of the Board of Directors.

** Covers 18 month period.

Source : Uganda Produce Marketing Board, Annual Accounts, various years.

Following independence from Britain, the proposals of the Cotton Commission of Enquiry of 1962 were implemented as presented in Sessional Paper Number 5 of 1963 which was embodied as an act of Parliament in November 1963. This legislation, while maintaining the basic functions and objectives of the LMB nevertheless gave more control of cotton matters to the Minister of Agriculture and Cooperatives thereby weakening the LMB.[9] It is not clear whether this change, which coincided with the replacement of all British Board members by Ugandans, was responsible for the losses which LMB suffered from 1963 to 1966 (See Table 3). However, the Board complained of the problem of having "to clear far more issues with Government before implementing them."

In spite of persistent losses from 1963 to 1966, LMB operated profitably thereafter except for 1970 when it suffered a loss.[10] The profitable performance of the LMB coincided with a "drastic" fall in production in the years after 1973. Cotton production declined to 74,422 bales in 1976. Between 1973/74 and 1979/80 fiscal years the area under cotton production by 55 percent while production fell by over 70 percent.[11] In his budget speech of 1980 the minister of finance blamed the persistent decreases in cotton

9. Lint Marketing Board, Annual Report, 1963/64, p. 3.

10. Paradoxically enough, cotton production in 1970 was 467,000 bales the highest yield ever recorded in Uganda. Republic of Uganda, Budget Speech, 1971. p.3.

11. Republic of Uganda, Budget Speech 1980. pp. 5 - 6.

Table 3: Profitability of the Lint Marketing Board, 1963 - 1976

Year Ended 31st December	Profit	Loss
	(Uganda Shillings)	
1963		62,962,320
1964		20,064,140
1965		49,336,780
1966		81,181,080
1967	1,143,846	
1968	1,188,578	
1969	489,568	
1970		6,836,706
1971	16,078,994	
1972	36,843,474	
1973	48,602,937	
1974	86,876,562	
1975	9,256,960	
1976	43,766,536	

Source: Uganda Produce Marketing Board, Annual Accounts, various years.

production on "the failure to provide efficient marketing arrangements, the absence of the necessary inputs... and the relatively non-renumerative returns of the crop...."[12] It is rather difficult to understand how the LMB operated at a loss during the 1960s when cotton production expanded rapidly, but came to operate at a profit in the 1970s when cotton production fell "drastically."

The schedule of profits in the 1950 to 1962 period (Table 4) suggests a periodic fluctuation in the Board's performance. It operated profitably from 1950 to 1957 and then fell into a 'recession' from 1958 to 1962 and so on to 1966 as already indicated. This would tend to exenorate the Ugandanisation of the Board as the cause of losses since that trend started before independence. However, the general decline in cotton production during the 1970s is a severe setback for the Lint Marketing Board in spite of its apparent profitability.

A final observation on the Lint Marketing Board's performance is the decline in the magnitudes of profit. It is noteworthy that the size of annual

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12. Ibid.

Table 4: Profitability of the Lint Marketing Board Before Independence: 1950 - 1962.

Year Ended October 31		Profit	
1950	Shs	82,998,958	
1951		216,673,977	
1952		176,459,570	
1953		258,120,215	
1954		44,215,260	
1955		19,294,000	
1956		11,486,960	
1957		4,276,860	
1958			Shs 55,140,780
1959			50,475,520
1960		19,799,080	
1961			19,956,240
1962			35,166,260

Source: Lint Marketing Board, Annual Accounts, various years.

profits was considerably larger in the early years of the Board than in the 1960s and 1970s. When this fact is combined with the decline in the value of the profits of later years (especially in the 1970s when inflation was astronomical) it becomes clear that LMB's profits have shrunk considerably in recent years compared to the early 1950s.

4. The Libyan Arab Uganda Bank

The Libyan Arab Uganda Bank was incorporated on 4th January 1973. Its capital of 20 million shillings was subscribed by the Libyan Government (51 percent) and the Uganda Government (49 percent). Since its incorporation the bank has operated profitably even though its methods of generating income were largely based on purchases of government treasury bills and stocks.

Table 5: Profitability of the Libyan Arab Uganda Bank (LAUB) 1973 - 1977.

Year		Profit
1973	Shs	2,429,566
1974		2,482,477
1975		4,704,448
1976		6,649,753
1977		21,139,084

Source: Libyan Arab Uganda Bank, Annual Report, 1972-1977.

Although this organisation is titled 'bank for foreign trade and development,' its sources of income in 1977 consisted of interest on items whose developmental content is doubtful. These items were:

			(millions)
i.	Time Deposits with Local Banks	Shs	116.00
ii.	Uganda Government Treasury Bills		300.17
iii.	Uganda Government Stocks		200.00
iv.	Loans to Customers, Bills Discounted and other accounts		204.00
	Total	Shs	820.17

Thus 75 percent of the bank's investments were in Uganda government securities. It seems strange that an organisation in which the government had a substantial interest would justify its role by buying government securities. It is doubtful that the government can promote development merely by funding institutions to buy securities from its central bank. Moreover this bank declared dividends every year without fail, and 51 percent of the dividends were sent to Libya out of Uganda's foreign exchange holdings. Despite its profitable performance therefore, this bank's contribution to development could be challenged on these grounds.

5. Uganda Development Bank (UDB)

The Uganda Development Bank was founded by the government of Uganda on 10th November 1972. Its function was to mobilise and provide short, medium and long term development resources to large, medium as well as small enterprises. Its capital was entirely subscribed by government to the tune of UShs 47 million. This amount was raised to U Shs 77 million in December 1976 following an appeal from the bank to the government to replenish the bank's losses which, it was claimed, resulted from the banks financing of governmental decrees that were unprofitable. Evidently the bank lost U Shs 13.5 million in loans to operators of commercial enterprises taken over from departed Asians, and U Shs 3.8 million was also lost when the government seized oil mills and ginneries and maize mills from private operators in 1976. These mills were placed under the Lint Marketing Board and the Produce Marketing Board respectively. Following these actions the bank appealed for more share capital from government. This was given in 1976 to the tune of U Shs 30 million. By that time the bank's outstanding loss from previous years was 8.1 million shillings. Total assets in 1976 stood at 129 million, having risen from 54 million in 1973. The structure of the assets was as follows:

Deposits in Commercial Banks	U Shs	7.4
Investment in Treasury Bills		17.5
Long term Loans		89.0
Fixed Assets		2.2
Losses		8.1
Expenses		4.8
	UShs	128.9 million

In November 1977 the capital of the UDB appears to have been raised by government through another 30 million shillings injection which raised its total capitalisation to 100 million shillings. The assets also rose to UShs 153 million compared to UShs 53 in 1973. The profit position of the bank in the 1973 - 1979 period is shown below.

Table 5a: Profitability of the Uganda Development Bank, 1973 - 1979

Year	Profit	Loss (million shillings)
1973		5.5
1974		0.8
1975		
1976		1.4
1977		1.9
1978		9.1
1979		7.6

Source: Uganda Development Bank, Annual Accounts, 1973 - 1979.

The Uganda Development Bank participated actively in financing a wide range of development projects. The structure of its loans in 1973, 1974 and 1975 is shown in Table 6. It is clear from these data that the bank promoted agricultural and industrial enterprise. By 1975 however, the bank had shifted from financing industry while maintaining its role in agriculture, commerce, transport and construction.

It is evident that this bank would have been out of business a long time ago if it were a private rather than a public enterprise. It could of course be argued that the bank is merely a means for channelling public funds into the hands of some lucky enterprises that are generally unable to pay back. This is probably an unfair charge. Nevertheless the problem of a state bank which actively finances private development projects but persistently fails to make a profit is in our judgement, a serious one.

Table 6: Development Financing by the Uganda Development Bank, 1973 - 1975.

Sector	Period		
	1973	1974	1975*
	(millions of shillings)		
Agriculture	4.3	9.0	16.2
"Mafuta Mingi"	13.5	-	-
Trade & Commerce	15.6	13.9	10.2
Transport	4.1	2.5	6.6
Tourism	-	5.0	1.2
Industry	12.3	5.0	0.1
Building	3.6	0.3	12.4
Total	53.6	35.6	46.7

*Estimate based on figures for the first six months of 1975.

It is evident that this bank would have been out of business a

Source: Uganda Development Bank, Annual Accounts, 1973 - 1976.

6. The Dairy Corporation Industry (DC)

Founded under the Dairy Industry Act of 1967, this corporation has plants nation wide to process milk, butter, cheese and ghee. The company's original charter authorised it to issue up to 1 million shares with a 20 shilling par value. In 1967 one quarter of the authorised shares was issued worth 5 million shillings while a further 6.4 million was added by government in 1972.

The results of the Dairy Corporation's activities in the 1967-1973 period in relation to its profitability are indicated in Table 7. It is clear that the Dairy Corporation was generally unprofitable. The annual losses in 1969, 1970 and 1971 were approximately equal to the company's original share capital of 5 million shillings and the accumulated losses in 1973 amounted to 16.9 million shillings.

The company appears to have had serious management problems. For example, a loan from Denmark of U Shs 9.5 million made to the corporation in 1969 required annual payment of interest at 5 percent p.a.; no interest was paid between January 1971 and July 1978. It is not clear whether the interest was overlooked or if the corporation was unable to pay. Another instance of mismanagement was that employees remained on the payroll of the

Table 7: Profitability of the Dairy Corporation Industry 1967 - 1973

Year	Profit	Loss
1967		Shs 331,034
1968		1,953,559
1969		5,061,304
1970		4,740,516
1971		4,162,358
1972		216,587
1973	Shs 207,508	-

Source: Dairy Corporation Industry, Annual Accounts 1967 - 1973.

company long after they were dismissed. There were also instances of duplicated payments and payments to dummy employees. In some of the accounts accumulated depreciation charges on assets exceed the costs of those assets so that the auditor general found the company's accounts to be improperly kept. Moreover the company was in one instance more than 5 years in arrears in submitting its accounts to the authorities as required by law. It is perhaps not surprising therefore that the company suffered a perpetual loss in its first five years of service.

7. The Uganda Commercial Bank

The Uganda Commercial Bank came into existence when the Uganda Credit and Savings Bank was transformed into the Commercial Bank in 1965. The former had been in existence since 1950. Today the Uganda Commercial Bank is the largest commercial bank in Uganda with more than 45 branches throughout the country.

The bank enjoyed a highly profitable record in the period 1967 to 1977 (Table 8). The increase in profits since 1973 may have been due to the increase in the volume of operations in the bank's business following the closure of up country branches of Barclay's, Grindlays and Standard Banks. Most of those branches were assumed by the Uganda Commercial Bank. Additionally all government institutions have been required to bank with UGB since 1972 so that it enjoys a large guaranteed customer. In all the Uganda Commercial Bank enjoys a good reputation in most parts of the country as well as the general confidence of government and the public.

Table 8: Profitability of the Uganda Commercial Bank (UGB), 1967 - 1977

Year	Profit (millions)	Issued Share Capital (millions)
1967	Shs 1.0	Shs -
1968	2.2	-
1969	3.2	30.0
1970	2.4	30.0
1971	0.6	30.0
1972	2.2	30.0
1973	24.4	30.0
1974	10.1	30.0
1975	11.1	30.0
1976	11.0	40.0
1977	36.2	-

Source: Uganda Commercial Bank, Annual Report, various years.

CONCLUSIONS

Table 9 below gives a summary of the profitability of all the enterprises in the sample. Four enterprises were generally profitable while the remaining three were generally unprofitable. It is therefore difficult to say definitively that state enterprises have been either profitable or unprofitable. Their success was clearly mixed.

Table 9: Summary of the Profit Experience of Sample State Enterprises, 1962-1980.

Enterprise	Actual years	Record: Profitable	Record: Unprofitable
1. Uganda Development Corporation	1971 - 1977		X
2. Produce Marketing Board	1968 - 1976	X	
3. Lint Marketing Board	1963 - 1976	X	
4. The Libyan Arab Uganda Bank	1973 - 1977	X	
5. Uganda Development Bank	1973 - 1979		X
6. The Dairy Corporation Industry			X
7. Uganda Commercial Bank	1967 - 1977	X	

Source: Own compilation.

However, it is noteworthy that the categories under which any of the institutions fall were distinct. With the exception of the Lint Marketing Board which experienced long periods of profitability followed by equally long periods of losses, the other enterprises tended to be either persistent losers or consistent profit makers. So it would be clear on the profitability basis which ones should continue to exist.

Secondly, it is relevant to bear in mind that all enterprises operated under extra ordinary circumstances in the 1970s. There were frequent changes in regulations and relations with other institutions - both domestic and international - which created extreme uncertainty. Uncertainty in the availability of inputs, particularly personnel, made operations unplannable and unpredictable. Many of these difficulties were in large part due to political uncertainty and instability.

Thirdly, operations in the 1970s coincided with recessionary conditions at home and abroad. This generally contracted their output resulting in severe shortages in the whole country. It is still unclear whether or not Uganda's enterprises can infact be fully rehabilitated.

The fundamental decision for the country now is whether reliance on state enterprises which are directly responsible to government creates an inherently unstable economy. For as the government changes so will the state enterprises also tend to change. For example a generally corrupt administration would tend to use the state enterprises as a means for the enrichment of government officials. This is in fact what appears to have happened in Uganda. In contrast one might argue that private enterprises would tend to be more stable because their private owners would have a far greater interest in protecting their properties and livelihood.

However, resolution of the balance between the resources to be controlled by public versus private enterprise will rest not only upon the relative expected efficiency of either form of organisation but also upon the capacity of either sector to actually undertake economic activity. Whereas government initiative in creating enterprises may have been essential to fill a vacuum in economic activity, the abuses and failures of some of the enterprises so created constitutes evidence for more careful choices. There is an agonising recognition in Uganda today to balance complex activities so that none of the essential social goals of economic stability, equitable income distribution and economic development are sacrificed. The future role of the state enterprise in Uganda will critically depend on how this device can promote a balance among at least these three crucial social goals.

THE INTERNAL STRUCTURE AND PERFORMANCE OF PUBLIC ENTERPRISES
SUMMARY OF A SURVEY

By

Dietrich C. Bruening

INTRODUCTION

The problems of the internal structure and performance of African enterprises discussed in this paper are based on the results of a short term research project performed during March and June 1979 in three East African States.

Our aim was to visit two public enterprises in each of these Countries: Sudan, Tanzania and Zambia (in Tanzania we could visit only one public and one private enterprise). Managers of the main departments were interviewed as shown in the attached questionnaire. Out of these interviews we decided to focus on these problem areas:

- Warehouse Administration
- Purchasing Department
- Production Department
- Personnel Department
- Sales
- Finance
- Management

1. WAREHOUSE

1.1 Raw and Auxiliary Materials

The administrational situation of raw and auxiliary material management varies greatly between the enterprises visited depending on the nature of the enterprises and their production.

In enterprises like sugar, plants no raw material administration exists because no raw material is taken on stock. The raw material is brought to the production plant on a daily basis according to the harvesting plant. Other enterprises, because of the nature of their final product, need more sophisticated warehouse management.

As long as the amount of raw or auxiliary material items are few, one could speak of an adequate administrational set up for these goods especially when the materials consisted of local production.

The situation changed drastically if the production is based on hundreds of different raw and auxiliary materials. In general, even in spite of a greater number of employees working in warehouse administration and the usage of Bin Cards, Stock Ledger Cards and Stock Movement Reports the information value of these means of registration was found to be very small. The cards showed figures of defined minimum and maximum stock but these figures often made no sense. To give an outstanding example, On one Stock Ledger Card we found a maximum stock of 10,000 Kg., a minimum stock of 24,000 Kg., and a re-ordering level of 50,000 Kg. Other examples like this one can be found but not as outstanding as the one given. A special problem was found in the field of the definition of the minimum stock and the re-ordering level.

These figures depend on the replacement time, specially on imports, which represent a large number of items of the needed raw and auxiliary materials. But because in turn the replacement time depends on the amount of foreign currency and the time of its allocation through the National Bank, the replacement time, and thus the stock card figures are indirectly dependent on the changes of the general economic situation of the respective countries and can hardly be predicted by the warehouse personnel. On the other hand, as we will show later, there is no direct information flow between the Purchasing Department and the Warehouse Administration to inform them about the expanding or lessening re-ordering time. Beside that the Warehouse would be over-burdened recalculating all the minimum stocks and re-ordering level to keep apace with the continuous changes. These problems and others like not having the required material on hand at time of need because of ordering too late or too few causes production halts. concluding

1.2. Spare parts

The problem of the administration of the spare parts warehouse is much more complicated because of the large amount of items which sometimes mounted up to 19,000. Because most of the spare parts are imported this increases the importance of their proper administration because as we shall see later of the problems foreign exchange.

The internal administration systems were similar to the raw and auxiliary material administration with use of Bin Cards, and Stock Ledger Cards. Our random checks showed often deviations between actual physical stock and registered stock. But beside that, here we could not get a clear idea of what kind of spare parts were needed and how many should be kept in stock.

The generalized finding was that in spite of the defined minimum or maximum stock figures the actual stock differed in excess or lower. On the one hand we often found no movement of spare-parts items for 4 years on items which had exceeded the maximum stock, on the other we found spare-part stock with a high turn-over which were less than the required minimum stock and in spite of that no replacement order had been issued. Also here we could not find any relation between the minimum stock and the replacement time.

The fact that spare parts are often not available when needed (their replacement time is sometimes up to 18 months) we were told often led to production halts.

2. PURCHASING DEPARTMENT

In general we found very little of authority within the purchasing departments meaning that they were rather executing other departments orders than developing actions on their own responsibility. Two factors may have contributed to this role of the purchasing department:

1. In general we found the purchasing departments cut off from the information flow within the enterprises. Most of the purchasing managers claimed that they were not sufficiently involved in the decision making process. Neither were they informed for example of production plans, management decisions or of world market trends nor did they receive e.g. sufficient prospective informations of the spare parts requirements of their enterprises.

2. The possibilities of action of the purchasing departments were directly depending from their National Bank's allocation of the required amount of foreign currence.

The latter needs some more explanation. Indeed, the purchasing departments in general were involved during the phase of budget preparations by giving cost estimates on the requirements of the different departments. After the budget has been prepared it has to be approved together with the enterprises plan of action by a government committee consisting in general of representatives of different ministers and a member of the respective National Bank. But even after approval of these authorities the enterprises or even the purchasing departments are often not free to dispose of the approved amount of foreign exchange but have to submit requests for each import order. Sometimes these requests are reduced or even rejected. Thus the purchasing department, being unable to provide the enterprise with the needed goods looses it reputation and becomes an administrational unit used by those who have authority.

3. PRODUCTION DEPARTMENT

The production plants in general we found well organized as far as the placement of stores, material flow, production flow etc. were concerned. Some of the enterprise we found, have plants with machines of an age of 10-30 years. No where could we find an inventory list showing the history of each machine and each part of the plant. This means that the number of repair hours spent on production breakdowns caused by each machine or part of the plant per week or year cannot be shown; therefore, it is difficult to estimate which of these machines or part of the plant have to be placed on a priority replacement list.

The same applies to the maintenance plans. In none of the enterprises visited, could we find a scheduled maintenance plan in which periodic changes of parts would have been scheduled and their need thereby defined and projected. Repairs were performed after breakdowns of plant units or at weekends, if they could last out till then. This general feature, meaning the age of the plants, the lack of priority replacement list of special machines or parts of machines, the non-existence of maintenance plans and the difficulties within the spare part administration and purchasing department to have the needed spare part on hand at the right time, is liable to cause breakdowns of machinery, rapid wear and tear and together with this a shortening of the life span, which means new costs.

The same lack of maintenance discipline we found with transport officers and drivers. As transport is one of the most crucial problems in all developing countries one would expect a special control of all transport facilities. The opposite is the rule. The maintenance workshops which we saw are in general very poorly equiped with old unsatisfactory tools. Many of the vehicles were out of order.

In most of the enterprises visited we found an adequately organized production control unit. This unit controlled the quality and quantity of the production on different points of the production line. Also the production report system to the management and the marketing department in general was found to be well organized.

4. PERSONNEL DEPARTMENT

In general the management of the enterprises studied stated that their factories were overstaffed. This fits in with the general idea of public enterprises which aims to fulfil beside their function as a production unit, a social role in reducing unemployment figures. The overstaffing appeared generally in a latent form which means for want of clear job description with defined work loads it is nearly impossible to say where exactly over employment takes place. Where attempts were made in this direction they failed because of lack of knowledge of how to define the real working load, which should be done by definition of the:

(a) List of repeated general duties
(b) Time spent for each of the above mentioned duties
(c) Organizational duties
(d) Planning duties
(e) Control duties
(f) Personnel duties

Because of the non-existence of precise job descriptions it was also impossible to create a workable system of job evaluation which in turn could be used to establish a system to provide various incentives for better performance. The described situation is worsened by the fact that dismissals are nearly impossible. This above mentioned lack of the fundamental tools for personnel management cost the enterprises a great deal of their eventual profit which could be used to create new jobs. Beside that, it stabilizes the problem of overstaffing and forces the governments to keep the general salary scale low to avoid higher costs of production.

Beside the official salary system, there exists a fringe benefits system for the General Managers and the Division Chiefs. These fringe benefits provide free housing, free cars with drivers, free servants, etc.

Another characteristic of employment was found in two countries. Often upper management positions like chief accounts or production chiefs are held by expatriates. They are employed according to the national pay scale with a topping-up of the salaries which sometimes surpasses the salaries of nationals by as much as 100%.

The topping-up of salaries for foreigners of course is the consequence of the lack of manpower for certain jobs, but there should be a system of continous training for nationals to replace expatriates after a certain time.

5. SALES

The public enterprises studied in general operation as sellers' market in the sense that what-ever has been produced is sold. Stocks of finished goods were hardly available, and if so, this is due to transport and distribution problems.

Therefore, a market development policy for the public enterprises visited in genral did not exist. We found very little competition because in general there is only one producer on the market. This situation could have given a public enterprise a strong position on the market by which it could increase its prices to have higher return. But price increases are subject to government approval to stop inflationary tendencies caused by such a market situation. Unfortunately this price control is often not reflecting the real production costs.

In one case it happened for example that the government raised the prices for raw materials by 28% but kept the prices for the final product constant.

Export prices as far as export exists, are based on world market prices even if they do not cover production costs. They are simply to earn foreign currency which is needed to import raw materials and other products.

Another problem which some enterprises have to deal with is distribution. Often the products reach only the consumers in the area of the production unit, the rest of the country is uncovered. In our opinion, this is due to the transport deficiencies, limited capacity in responding to increased demand and to a lack of incentives for higher sales. Sometimes even the distributi g organization is an independent government organization with no links to the producer meaning that the public enterprise are only to produce - the marketing is done by another organization. The marketing organization distributes what is given to it. The countervalue of the sales is transferred to the Minister of Finance which in turn pays the producing company according to the approved budget. This pattern ofcourse fails to give the producer the feedback on consumers' demand. The above mentioned marketing situation of most of the public enterprises inhibits their interest in either developing its market or performing marketing studies leading to sales extension plans.

6. FINANCE

The performance of the systems of accounting vary greatly from country to country. In most of the enterprises we found a sufficient system of financial accounting to provide the superior authorities with balance-sheets and a profit and loss account. But no where could we find a proper cost accounting system. This we feel strongly weakens the managerial possibilities of the general managers. If analytical cost accounts were made available, managers would be able to see exactly where losses or weaknesses in each enterprises exist. With such information conscious decisions could have been taken by management to control weak points and to expand those activities which contribute to greater efficiency. Furthermore, had such information been available, policy making at the highest levels would be considerably facilitated. In fact it should then be possible to convince the higher authorities of the directions in which decisions ought to be taken so as to avoid serious consequences.

The exercise of the budgetary control function which is an essential tool of management does not always exist in the form that one would desire for effective control. The weaknesses in this area are that the budgets are often based on rough projections of previous years figures with a percentage added thereto; budgets are not cost/related so that the budgets do not represent What the costs ought to be for given activities according to the plan of action. By way of example the case can be cited of one enterprise where budgetary control did not exist at all on the supposition that if actual expenditures exceeded the budgeted figures it was considered not to be a problem because a new supplementary budget could easily be prepared to ask for the additional funds.

The above mentioned weaknesses gave us the impression that special measures need to be taken to install, where necessary, cost accounting systems and by this to help improve managerial performance.

7. MANAGEMENT

At the end of our visits to the different public enterprises we discussed our finding with the general Managers of the respective enterprises or corporations. At the same time we interviewed them about their own management problems. The following may give a generalized picture of the problems all general managers have to face. In nearly all of the enterprises we found a continous conflict between the supervisory authorities, and the management. Even when the managers stated that they have full responsibility they had later on during the interview to admit, that management decisions have occasionally been altered by tutelary authorities. Especially in the field of employment, pricing and finances as well as investment the management had to follow the different directions of different authorities as there are the national Ministry of Labour, Government Price Controllers, National Banks and the Ministry of Industry. Most of the managers stated that they only try to minimize government intereference.

This system of allocating objectives to the enterprises through government authorities in general limits the freedom of management's decision-making and transfers responsibility for the main decisions to a more complete and anonymous body.

As far as the internal organization is concerned we got the impression that instead of delegating certain managerial power to the division chiefs in many of the enterprises all decision-making power is concentrated in the person of the General Manager. The organizational charts we found were very often more theoretical outlines of how an enterprise should be organized than that they reflected real powers, responsibilities and functions of the different owners of the positions. Specially they did not satisfy the requirements for a clear organizational set up. An effective organizational set up should be a tool for management and not only a list of functions and positions of employers. It should include in a well described form the activities, functions and responsibilities of each position, the channels decision making and the system of information and co-operation between the different departments of the organization. Once these rough outlines have been developed, it will be possible to give more details on job descriptions and to develop criteria for a job evaluation system as mentioned above.

In the enterprises interviewed we could not find the above mentioned organigrams. The question might be raised, whether this is not too sophisticated for the enterprises visited. We think that this should be considered in relation of the size of the enterprise. The bigger the enterprise, the more management and control methods become necessary. Public enterprises in general are big enterprises without the traditional personal relationship between managment and employees. Each of these organizations are divided into hundreds of functions, which cannot be supervised without a recourse to modern organizational skills in public enterprises is unavoidable if one hopes to run them on an efficient and effective basis.

INDEPENDENCE AND ACCOUNTABILITY IN STATE ENTERPRISES IN UGANDA

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INTRODUCTION

Part I

As early as 1971 it was clear that the exchequer in Uganda was increasingly being called upon to provide funds as short term advances or as outright grants in what could only be described as bail out exercises of certainly non viable statutory corporations. Such releases of funds often took place in cases where the Secretary to the Treasury and the Auditor General knew fully well that the corporations would not be able to repay even the interest, let alone the principal. In the case of grants it took place as a means of providing additional capital for apparently self financing entities in the full knowledge that the entities in question would never be self financing. These financial transfers coincided with the availability of many audit inspection reports indicating poor management, inadequate accounts records essential to management, inadequate account records essential to management for effective policy decisions and exceedingly high overheads mostly associated with a surfeit of staff, prestige offices and staff houses. Many of these corporations would have been forced into liquidation but for the underwriting provided by the tax payer. This general state of affairs is indeed well known but has never been the subject of systematic enquiry.

An examination of major state owned corporations to determine their profitability has been undertaken by Dr. Ezra Suruma as part of a study of the financial and management problems of the parastatal sector (1) The effort should help reveal the existence of unprofitable public corporations whose continued operation largely amounts to exercises in income redistribution from transactors in the economy who constitute the major sources of tax revenues to employees, direct and indirect suppliers and consumers of the particular corporations' activities. The exercise may also contribute to an understanding of the lack of bouyancy in Central Government revenue which has been a major factor in the emergence of a tradition of deficity financing and the virtual institutionalisation of very high inflation rates. The usefulness of the exercise may be enhanced by an examination outlined in this paper of the set up for control and public accountability of parastatal organisations. This may reveal modifications in the system of control and public accountability which could result in profitable operations in a number of previously unprofitable public corporations.

Part II

A government's relations with any of its corporate or autonomous entities are always faced with the question of how operating flexibility and independence required for successful operation of an enterprise can be reconciled with the need for controls to ensure public accountability in the use of public resources and consistency with public policy. Control and the level of accountability in autonomous public organisations is likely to be influenced by the degree of control and the extent of public accountability in the central bureaucracy itself. Given proper financial control and accountability in the central bureaucracy, the problem of conflict between independence and accountability in autonomous state enterprises may be expected to be minimised. In the contrary setting of lax financial practices and control in the central bureaucracy, rather more conflict between independence and accountability may be expected. The extent of the problem may further be expected to be even greater given a situation of extensive inability on part of many autonomous state organisations to pay their way. Then a virtual merger of their budgets and the central government budget may take place through continuing subsidies, grants in aid, loans and advances, loan guarantees that more often than not end up as actual rather than contigent liabilities or through repreated restructuring of capital set up involving the injection of new resources from tax revenues. In a setting of this nature, an examination of the state of control and public accountability in the central bureaucracy itself is a useful point of departure for an inquiry into the set up for the control and public accountability of autonomous state enterprises.

Part III

It is possible to trace increasing deviation from the principles and practices of proper financial control and accountability in the central bureaucracy in Uganda as far back as the early independence days. Divergence between the ideal and realised practice widened during the period of the military regime (1971-1979) but did not originate in that period. Present day general explanation of the continuing and possibly deepening system of lax central accounting practices and deficient financial control asserts that the period of military rule so corrupted society that proper financial management and control is impracticable but may very well represent pre-occupation with other concerns.

There is perhaps no one set of documents which chronicles the steady decline in accounting and financial management standards in the Uganda central bureaucracy than the Auditor General's annual reports on the public accounts of the country. Accounting and audit staff shortages in the face of a steady rise in the number and variety of accounting transactions appear to have been major factors in the emergence of the trend.

Coinciding with the advent of independence, in 1961/62 there was an expansion and decentralisation of accounting work and a departure of experienced accounting and audit staff. In 1962/63 the work undertaken continued to leave the country. Only minimum audit of the main government accounts was possible. Nevertheless the general standards of accounting was judged satisfactory and unauthorised expenditure, most of it the result of cost overruns in construction works, amounted to just over some three million shillings. Staffing difficulties figured prominently in the Auditor General's reports each year throughout the 1960s and for the first time in 1965 his report was a qualified one in that there was reference to a large number of unfinished matters and expected replies to querries in that report. In the following year, 1966 there was specific reference to a decline in accounting standards for the first time. A general decrease in the efficiency of accounting units was referred to in the opening pages of the Auditor General's report for 1969. A considerable number of accounts were in arrears, essential records were not in all cases maintained, accounting instructions were violated, the magnitude of loses of cash and stores were reaching alarming proportions and inadequate supervision of accounts staff was noted. The report made reference to a disturbing increase in the number of instances of abuse of public funds such as the payment of private bills in the Ministries of Defence and Foreign Affairs and in the National Assembly and the Police. Private and social journeys and passages for children in excess of entitlement, unauthorised passages for officials' wives and unauthorised allocations of houses additional to an official residence and mileage claims in addition to the provision of hired transport were all apparently general in many branches of the civil service. Adverse criticism of accounting standards had become perennial. Reference to the dearth of experienced staff had become equally perennial while remedial action, despite deterioration of an already serious situation was imperceptible. Indeed by 1968 the latest Treasury Memorandum which should set out each year. (and which should be tabled in the legislature each year) the Secretary to the Treasury's reaction to the various recommendations, criticisms and comments following upon legislative examination of the Auditor General's report, was that for 1962. Treasury Memoranda in respect of 1963/64 and 1964/65 were submitted only at the time of preparation of the Auditor General's report for 1970 (2). An essential link in the annual cycle of appropriation of funds by the legislature, the disbursement of funds by accounting officers, the audit reports, the tabling of those reports in the legislature, the examination of accounting officers by the legislature, and the Treasury Memorandum on the legislature's report, had been severed and had been converted into a historical exercise carried out more or less for record purposes after the recommendations, criticisms and comments it addressed itself to were no longer of current pressing concern.

With the advent of the military regime, the legislature at the end of the chain of reporting in the system of financial control was suspended. The Public Accounts Committee of that body before which accounting officers were liable to be called for cross-examination of the management of their votes was not replaced or reconstituted in any form. A number of accounts statements that the Treasury should have compiled for the Auditor General's annual examination such as the statement of receipts into and issues from the consolidated fund, the balance sheet of the same fund, the summary statement of revenue and many other ceased to be available on a regular basis. The Auditor General's examination covering the last year of the military regime 1978/79 reported no change in the persistent deterioration in standards of accounting, in effectiveness of accounting controls, in the proper discharge of accountability and went on to reveal that most accounting units had, for the last five years, failed to compile end of year financial statements and that the Treasury itself appears not to be taking action to arrest the situation. Public accountability of resource use in the central bureaucracy itself appears to have been completely jeopardised (3).

Indication of the decline in accounting and financial management standards in the central bureaucracy is also provided by the evolution of the budget making process. A realistic appreciation of the relationship between government revenue from all sources and government expenditure for whatever purposes is an essential element in the control and public accountability of government financial resources consistent with the avoidance of inflation and the maintenance of stable purchasing power of money. However, indicative of declining financial control and public accountability in Uganda, from around the beginning of the decade of the seventies, there appears to have developed increasingly limited appreciation of the relationship between revenue and expenditure. Government expenditure cessed to be guided by an assessment of revenue likely to be available to the Treasury from all sources whether domestic or foreign, through grants, taxation, government commercial operations or borrowing. The result was an unprecedented accumulation of ways and means advances from the central bank and the virtual institutionalisation of very high rates of inflation. Beginning with 1974/76 ways and means advances have consistently exceeded the legal maximum of 18 per cent of expected recurrent revenue each year. During the period of the military regime, the excess over the permissible legal limit reached a peak in 1976/77 when this stood at over 2.52 billion shillings as of the 30th of June of 1976. There was a slight decline to an excess level of around 2.51 billion shillings as of the 30th June 1978 the last full year of the military regime. Since then a remarkable acceleration has taken place with the extent of extra legal automatic government borrowing from the Central Bank reaching over 7.2 billion shillings as of the 30th of June 1980. At that date outstanding ways and means advances exceeded forecast recurrent revenue by a factor of nearly one to one and a half (4). The situation is as if the authorities have accepted the idea of government expenditure for all purposes must equal the total financing from all sources including printing money, and had consciously selected to determine to a very high degree the path of public sector purchases of goods and services and to forego completely any possibility of influencing the price level (5). Significantly the need to relate expenditure to likely revenue resources in the annual budget statement for 1980/81 was excised from the statement after specific inclusion at the drafting stage. The budget department continues to carry out the annual compilation and of what limits and purposes the spending ministries and other units will be permitted to plan for without obtaining any guidelines whatsoever from the taxation, aid coordination and economic affairs departments as to likely revenue resources from taxes, loans and grants and from government's commercial operations. The budget department too does not indicate limites of permissible expenditure to spending units before calling for submission of their bids. Indeed the effort to include autonomous enterprises' requirements in the development budget is a much more prominent exercise than that of determination of their contribution to government revenue. The exercise has now evolved such that the development budget is laid out by the Ministry of Planning with the determination of the ranking of priorities alone as sufficient criteria for inclusion in the annual budget.

The apparent concentration of interest on the spending side of financial control and management in the central bureaucracy seems to have come about along with other novel features. Missing records misplaced vouchers, over crowded and disorderly working conditions, understaffing, long standing neglect of training needs, low morale engendered by the extremely high and rising cost of living and poor transportation and security situation are some of the mundane factors constituting obstacles to the reintroduction of public accountability in the post military period. Systematic attack on many of these factors is possible as is evidenced by working level proposals for regular contacts between the Treasury and Heads of Accounts in various Ministries, regular use of Treasury Inspectorate Teams, posting knowledgeable personnel as Heads of Accounts, refresher courses for staff, enlargement of accounts establishments and insistence on monthly returns, within two weeks of the end of the month, covering monthly expenditure and revenue receipts, trial balances and bank reconciliations (6). However, there seems to be considerable remoteness between Accounting Officers who are the Permanent Secretaries and working level accounts staff. The Accounting Officers are extremely busy officers closely associated with the management of the new distribution system of a world of controlled prices, free market prices, primary access through administrative decision and unsegregated markets for officially and unofficially obtained commodities. Closer attention and interest in public accountability on part of Accounting Officers is likely to develop further only after the reintroduction of the system of public examination of these officers before the Public Accounts Committee of the legislature and extensive dismantling of the new distribution system of allocation committees topped by the Ministry of Supplies.

Part IV

Accounting Officers presiding over the central bureaucracy that has experienced changes in the level of public accountability reviewed above are the principal officers responsible for overseeing accountability in state enterprises and conformity with public policy. The independent and flexible powers of the public corporations are in law vested in boards of directors. The accommodation between flexibility and independence on the one hand and public accountability and conformity with public policy on the other is however not just a product of legislation alone but is also the outcome of customs and traditions and perhaps even simply folkways in the country among the elite controlling group as a whole.

At first sight it would appear that a series of interlocking checks and balances should certainly ensure a required equilibrium between independence and public accountability and control. In every public corporation a chief executive exercises day to day management and control but by the law establishing the corporation, for example, that establishing the Uganda Development Corporation it is the board of directors that is entrusted with the responsibility to manage and control the operations of the corporation. Indeed, any powers not specifically reserved and required to be exercised by the shareholders either by the provisions of the specific public corporation law or by the companies act which governs all companies in general, are exercised formally by boards of directors. Since boards of directors are supposed to be teams of public minded men of proven experience in business and public administration, their effective control and supervision of the chief executive could confidently be expected to contribute to required balance between independence and public accountability. Additional balancing mechanisms is to be found in Ministerial control over the activities of any public corporation. All public corporations fall under one Ministry or another for purposes of policy guidance and supervision. Establishing legislation most often specifically provides for the possibility of Ministerial directives and no corporation operates in an environment in which it is free to disregard entirely the direction of government policy. Audit reports too provide yet another mechanism for balancing between statutory corporation independence and control. The reporting to the Minister of Finance required of the Auditor General or of any competent person the Auditor General may appoint is in very specific terms and by stated dates. The reports have to express an opinion on whether proper books of accounts have been kept and on whether the financial statement of the particular corporation was prepared on a basis consistent with that of the previous year and in agreement with the books of account. The reports further must come out on whether the balance sheet of any corporation gives a true and fair view of the corporation's affairs at the end of the financial year in question, and on whether the income and expenditure statement gives a true and fair view of the corporation's affairs. Audit reports must further contain any other matter falling in the scope of the auditor's examination which in his opinion should be brought to the attention of the legislature. Audit reports involve test checks on say day to day operations of the business on the verification of assets and liabilities. Any material weakness in the corporation's internal control is also reported to management (7). Clearly this is a powerful element in the system checks and balances especially because the reports go to the Ministry from which public corporations obtain initial capital, additions to capital, loans and advances and loan guarantees. In a system of Ministerial responsibility and control by the legislative, audit reports become all the more important since the annual reports and accounts have to be tabled and debated and presumably jobs may be lost given poor performance.

Operating reality seems to be totally different from the spirit of constitutional and legal provisions. On the whole operating reality gives primacy of place to the chief executive. He is nine times out of ten a member of the board of directors and chairman of that board. The top management team with which he operates owes loyalty to him rather than to the board of directors as a whole. As such he is available on a full time basis to marshall papers and other resources in any disagreement with the board. Most often he is appointed for a fixed term which is longer than that of the rest of board members. His appointment almost always never refers to his responsibilities but concentrates on enumerating his compensation and fringe benefits. His appointment is further seldom reviewed before the end of his term on the basis of some evaluation of his performance. Even then that appointment is often routinely renewed at the end of its term.

Apart from the chief executive there is the all important role of direct functional responsibility of the Minister. It is the Minister who appoints the chief executive. The Minister can exercise considerable influence but seldom develops second thought regarding his appointment. Very often he can influence appointments below the chief executive even if on paper these are the responsibility of the board of directors. On many occassions the Minister is pressing for funds for his corporation from the Ministry of Finance. The Minister rarely concerns himself with accounting irregularities and seldom identifies constraints in his corporation's performance bigger than finance or foreign exchange. It is not indeed without significance that the Chairman and Chief Executive of a major autonomous service corporation in a communication to the Ministry of Finance, referred to the Minister of Marketing and Cooperatives as recently as September 1980 as his Minister of Finance.

Behind the responsible Minister comes the board of directors appointed by that Minister. Principal concerns of boards of directors appear to be appointments, considerations of management proposals and budgets. Rarely do boards of directors take critical interest in financial practices or call for corrective measures following unfavourable audit reports. For example, a currently profit making autonomous state organisation was found in the second quarter of 1980 to have made profits each year since 1974 and to have regularly made strict provisions for corporation tax each year but to have kept this on deposit on the corporations account to earn interest. Apart from not paying corporation tax the organisation has also never paid dividends to the government as required in law (8). Indeed flush with six years unpaid corporation tax and dividends plans to enlarge the corporation's income base are a foot with overwhelming support of the board of directors who are only mildly concerned with unpaid taxes and disregard of the law concerning appropriation of profits. Boards are seldom alert inspectors, hard judges or informed guides of management. However, operating in conjunction with the chief executive boards tend to strengthen the chief executives' dominating position. On appointment members of the board seldom have their responsibility enumerated. They are never told they are to develop querries regarding plans of management. They are never told to raise objections, to call for regular reports covering both technical and financial aspects of agreed to projects. Their terms of appointment are fixed and on their installation in office emphasis is on remuneration they are to receive.

Removed from three foregoing groups is the Ministry of Finance whose central concern is with proper care and custody of the assets and finance of the co-operations, maintenance of proper and timely written books of accounts, timely preparation of annual reports and audited accounts, development of effective corrective action for any defects identified by auditors, and conformity with the law especially as regards payment of taxes and dividends and timely transmission of all taxes collected. Very often, however, the Ministry is being pressed for funds even for corporations whose accounts are in arrears or show serious accounting shortcomings. Querries from the Ministry are often simply ignored. Taxes are sometimes not paid or if collected from employees or otherwise in the course of business are often not transmitted to the Treasury. Dividends due are often retained. Guarantees for borrowing are almost equally often extracted from the Ministry.

Part V

Clearly apart from the absence of the final link in the chain of reporting of open cross-examination of Accounting Officers before the Public Accounts Committee of the legislature, there are considerable gaps and deficiencies in the system of interlooking checks and balances designed to relate independence and flexibility of autonomous state enterprises with their public accountability and conformity with public policy. The advertent wide-spread emergence of a dual pricing system for many commodities (ranging from foreign exchange, imported vehicles of all types, durable household items to locally manufactured soap, sugar, cement, textiles and what have you) with access at lower officially sanctioned prices determined through administrative decision making, diverts considerable attention of power holders from public responsibilities into efforts to acquire such commodities at controlled prices for resale at free market prices. It would appear that further strengthening of the powers of the board of directors to counteract the likelihood of the chief executive of any corporation joining hands with the Minister of direct functional responsibility to run the corporation as a private preserve deserves exploration. The almost total concentration on remuneration and benefits of directors at the time of their appointment should perhaps partly give way to an outline of their duties and responsibilities including indication of the type of offences of directors as well in law. Then again a look at the idea of making directors' terms of office partly dependent on periodic reviews of the corporations' performance as an indication of directors' performance apart from being fixed for specified periods could also be considered. Finally, perhaps tightening up legally permissible areas of activity for any corporation deserves further study so that corporations intended to develop mining resources, to engage in import and export trade, to promote manufacturing, to develop agricultural enterprises or what have you do not diversify into easy real estate and prestige office development beyond immediate staff requirements.

Notes and References

1. Ezra Suruma, An Assessment of the Profitability of Major State Enterprises in Uganda from 1962 to 1980, forthcoming.

2. Auditor General, The Public Accounts of the Government of Uganda, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1970, 1971, 1979, Government Printer, Entebbe and typrescript, especially pp. 1-6.

3. Auditor General, Op cit.

4. Bank of Uganda and Treasury, The trend in ways and means advances in relation to anticipated government recurrent revenue built up from Bank of Uganda and Various budget statements have been as follows in millions of shillings.

Year	Forecast Recurrent Revenue at Budget time	18% of Recurrent Revenue	Ways & Means Outstanding as of 30 June	Growth rate in ways & means	Excess of ways ways & Means over 18% of recurrent revenue	Growth rate rate in excess ways & means
1972/73	1,390	258.2	215	-	-	-
1973/74	1,525	274.5	206	(4)	-	-
1974/75	1,656	298.1	1,015	493	716.9	-
1975/76	2,213	398.3	1,799	177	1400.7	195
1976/76	3,111	559.9	3,080	171	2520.0	180
1977/78	6,568	1182.2	3,556	115	2373.9	94
1978/79	4,752	855.3	3,365	95	2509.9	106
1979/80	4,891	880.4	5,479	163	4598.3	183
1980/81	5,526	994.7	8,195	150	7200.3	157

5. Carl F. Christ, On Fiscal and Monetary Policies and the Government Budget Restraint, American Economic Review, September, 1979 pp 526-538 provides a recent discussion of the idea of government budget restraint.

6. Accounts Staff, Minutes of Heads of Accounts Units 12-6-80.

7. The Laws of Uganda, The Public Finance Act, Cap 146, especially Section 24, Duties of the Auditor General.

8. Decree No. 21, The Finance (Amendment) Decree, 1974 specifies that except where the Treasury directs, every statutory corporation which is a business enterprise must pay to the Treasury within six months of the end of its financial year one third of net profit or surplus earned.

MANAGERIAL PROBLEMS AND STATEGIES OF PARASTATALS IN THE KENYAN HORTICULTURAL INDUSTRY

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A. THE HORTICULTURAL INDUSTRY IN KENYA

The Horticultural Industry in Kenya is part of the Agricultural Sector which is of great importance for the whole population and which provides more than 1/3 of the national income. Although the horticultural industry by itself is not yet important in terms of turnover, it has a high potential for further development. Not only can investments in the horticultural industry increase earnings of foreign exchange through export, it can also with expansion of cultivation of produce create additional income for the population; it can also improve their health through the variety produced and the vitamins and other nutrients contained and can decrease the country's dependency on the very few basic commodities. Whereas exports of horticultural produce may stabilize in future because of various constraints in industrialized countries there can be expected an expansion of the local market with regard to turnover, urbanization and growth of population.

The Kenya National Development Plan of 1979 to 1983 has this to say about the importance of the horticultural industry:

> Horticultural Development which will also receive high priority during the Plan, aims to increase production and improve the quality of horticultural produce in Kenya. Specific programmes on how to improve and maintain, competitiveness in export markets to earn needed foreign exchange will be undertaken. This will include services to improve the flow of market information, and improved extension services designed to help the users to respond rapidly to market opportunities. To improve institutional standards in terms of minerals and vitamins a sectoral programme of diversified products based on the 1978 Horticultural Development Study will be implemented.

The Horticultural Sector in Kenya grows more than 30 different kinds of products of which some are mainly grown for export (french beans, aubergines, ochra, bitter gourds, courgettes) and others for local consumption (onions, potatoes etc.). The main countries which import Kenyan horticultural products are: United Kingdom, France, West German, Holland, Sweden, Djibouti, Saudi Arabia. Whereas the total export in 1967 of horticultural produce in Kenya was only 1,500 tons, it had increased to 21,000 tons by 1978 with a value of KShs. 160,000,000. Except for tropical fruits which are mainly grown by large scale farmers suppliers for the horticultural produce in Kenya are mainly small scale farmers. The horticultural produce can be sub-divided into tropical fruits, off-season vegetables and asian-vegetables. The handling of the produce and the whole procurement and marketing activities are affected by the highly perishable nature of the produce especially the vegetables.

2. Legal and Organisational Framework

According to the Agriculture Act the Minister of Agriculture can declare any particular crop which is grown in Kenya for the purpose generally of sale to be a special crop. Whenever a crop or a group of crops are declared special the Minister shall establish an Authority for promoting and fostering the development of that crop. (Agriculture Act, Section 190-192) In 1967 horticultural crops were declared as such and the Horticultural Crops Development Authority was established. The Agriculture Act indicates the structure and power of boards and authorities for those special crops which then are specified in an Act of Parliament for each institution.

At present there are two parastatal organisations sharing the horticultural market with many private companies. One is the Horticultural Crop Development Authority, which was established under the Agricultural Act, Chapter 318 by promalgamation of legal notice Nr. 229 of 1967 and the amendment by legal notice Nr. 44 of 1976. The other one is the Horticultural Co-operative Union, established as a country-wide Co-operative, and was founded in 1953 under the Co-operative Society's Act (Register Nr. 263), but with special by-laws regulating its objectives, purposes of funds membership, share-capital and liability, funds, general meeting, management committee, borrowing, powers, general provisions, binding rule, distribution of supplies, disputes and liquidation. It is one of the country wide co-operatives in Kenya for which the Ministry of Co-operative Development is the parent Ministry.

B. THE ROLE OF THE HORTICULTURAL CO-OPERATIVE UNION

1. Historical Background and Development:

The HCU originally formed in 1952 with the purpose of importing sufficient quantities of foods which were not available in Kenya, has quite a long tradition. As part of the co-operative movement it had to serve particularly the small scale farmers. Later on in 1957, the HCU started marketing of locally grown produce. Up untill 1965, the HCU had a monopoly in all export business and it received most of the high quality produce from growers, although the export sales were only possible in small quantities and only a few exporters were operating in Kenya. During this time, that is before 1967, the HCU was marketing its produce procured from local co-operative members by an experienced staff but these conditions have however changed and HCU continues to experience trouble in the form of lack of marketing and procurement knowhow and financial problems.

In the past the Ministry of Co-operative Development, the parent Ministry for HCU, made a lot of efforts to put HCU again on an economically health basis. Several times the top management, including the management committee were replaced and a foreign donor - the Dutch Government - was involved to give financial support and technical aid. In 1976, the government of the Netherlands provided the Chief-Executive and a Marketing Manager for the Union in addition to the loan. Besides this support investigations were carried out through a working party established by the Ministry in 1975, and there was also a report of a Dutch Evaluation Commission in 1978. In 1979 another study team was appointed by the Ministry of Co-operative Development. All these study-teams made several investigations into the performance of the HCU. But inspite of all these efforts and the recommendations, the overall functioning of the Union has deteriorated.

2. HCU's role as part of the Co-operative Movement

Particularly from the view-point of the Co-operative Movement a solution for an improved performance of the Union has to be found. According to its objectives as mentioned above, the HCU was established to support its members in the marketing of their produce and serve as such the small scale farmers in Kenya.

But it must be admitted that because the Union has been exempted from various sections of the Co-operative Society's Act (Sections 2, 40, 41, 42,) it has widely failed to contribute to the Co-operative Movement and has so far been unable to meet its objectives. According to these exemptions the Union is allowed to register not only primary societies but companies and individual growers as their members. Moreover, the Union has power to give loans and to buy produce from non-members.

In fact, more than 50% of the turn-over of the Union in 1978/79 was contributed by non-members. HCU has also not achieved the objectives 2, 4, 5, 6, 9 out of nine objectives mentioned in the by-laws. This means that, there have been no activities of the Union in the past to supply members with seeds and other farm requirements, it does not own and operate canneries, it does not promote the development of the horticultural industry and organise further Co-operative Societies, and there were no important efforts to strengthen the idea of the Co-operative Movement.

Taking into account the actual poor performance of the HCU and its contribution to the Co-operative Movement, its further existence has to be questioned as the Union has made heavy losses particularly in recent years.

3. Actual Performance and Prospects of HCU

The management of the HCU consists of the Management Committee, the General Manager and the Managers for Procurement, Marketing and Accounts. Other major functions within the Union are Storekeeping and Transport. During the financial year of 1978/79 HCU had a turnover of KSh 10.8 million and employs at present a staff of about 100 people. The power of the Management Committee is described in the by-laws. It is more a supervisory than a Management Committee as it has to function mainly as a linking pin between the members and the Union, supervising and providing accurate accounts. Out of 21 functions of the Committee, only four are marketing oriented. One important power of the Management Committee is to appoint, discuss, suspend or punish employees and to fix their terms of service. The Management Committee is supported by a Planning Committee composed of the Chairman, Vice Chairman of the MC and the General Manager and Chief Accountant of HCU.

"The Committee may delegate, by resolution in Committee, to the General Manager of the Union those of its powers which relate to business transactions" The General Manager may be present (at the meetings of the Committee) to advise the Committee if necessary but shall not vote. (By-law of HCU). The General Manager is expected to implement the decisions of the Management Committee and to act on behalf of the Committee concerning the day to day business of the Union. There is no job description available although it is a key post.

The Marketing Manager of HCU is responsible to market its produce and carry out other marketing functions, both exports and local sales. In most cases the produce is sold and commission is given to members or non-members. When this happens, the supplier does not know in advance what price he will get. HCU gets a certain percentage (10% from member, 15% from non-members) from the turn-over achieved at the market as its income. HCU is also involved in direct purchase. There are standing orders or tenders from Hotels and governmental institutions, but most of the produce is marketed on a whole-sale basis.

The produce on the local market is sold either from a godown at the headquarter of HCU in the Industrial Area of Nairobi or at two Branches at Mombasa and Kisumu. There is in addition marketing by the HCU on a retail basis at the headquarter, through a sales van, and at a City stall at the City Market. The problems the Union has to face in this connection are price fluctuations which require a functioning marketing information system. The Union is lacking this kind of information which requires experience and knowledge of the horticultural market. It has been proved that private competitors are more flexible in their price calculations. This lack of knowledge of how to fix prices, affects also the procurement department, which is without guidance from the marketing department. As a result of this, it happens that procured produce can afterwards not be sold at prices formerly agreed upon which may lead to high wastage or to sales below cost-prices.

The procurement from the producers is also affected by lack of transport, low prices and delayed payment on the part of the Union. But there are also societies or individual suppliers who cause problems by delivering low quality products or by shifting to private competitors against the provisions of the Co-operatives Society's Act.

In summary, the main problems of the Union concerning marketing and procurement of their produce are:

- lack of cost and price information,
- lack of transport facilities
- lack of co-ordination between procurement and marketing department
- an unreliable Union
- lack of experienced and dedicated staff
- poor external relationship

It has to be pointed out that HCU apart from solutions for its internal management problems, can only survive within the horticultural market if a much closer cooperation and coordination with HCDA can be achieved, promoted by the two parent ministries. Moreover, HCU has to be put on a viable financial basis which really strengthens the market position of small scale farmers.

Its success will depend on its ability to provide reasonable prices for the farmers and to invest part of HCU's income not only in administrative expenses but for improved services for the farmers.

C. THE ROLE OF THE HORTICULTURAL CROPS DEVELOPMENT AUTHORITY (HCDA).

1. Background and Development.

The HCDA was established in 1967 as a Statutory Board under the Agricultural Act. According to these legal provisions the HCDA is an extremely powerful organization which could dominate and control the whole horticultural industry in Kenya. Its control and regulatory functions concern the cultivation of horticultural crops, the purchase and sale of planting material, the growing, harvesting, purchase, transportation, sale and marketing of produce. The HCDA can take all actions it considers necessary to promote the development of the horticultural industry. It also fixes prices for the horticultural produce and for all these functions, HCDA can either appoint agents or directly involve itself in marketing. In order to finance its activities HCDA can propose levies on growers of horticultural produce and has got considerable financial support from the Government.

In carrying out its various functions HCDA has issued licenses to exporters and is in control of the air space allocation for horticultural produce at Jomo Kenyatta Airport. HCDA has also set up a market information centre in Europe to provide Kenya with the necessary trade links and has participated in exhibitions abroad. It also provides market information for traders in Kenya. In general HCDA in that role has given priority to the development of export marketing, but has provided the local market with a number of packing stations.

2. Performance and Prospects of HCDA

HCDA employs a staff of about 70 people and had an estimated revenue of KSh 2.3 mil. in 1979 The parent ministry for HCDA is the Ministry of Agriculture. This Ministry is therefore represented in the Board of the Authority together with representatives of the Ministry of Economic Planning and Development, Ministry of Commerce and the Commissioner of Co-operatives.

In addition representatives of the producers and of the canning industry are members of the Board which can therefore be seen as a coordinating and policy making body. The Board is assisted by several committees for management, marketing and development. Besides the General Manager, there are the following divisions established: Marketing Divisions, Production and Planning Division, Accounts Division and Administrative Division.

In the Marketing division, there are separate sections for export and local marketings. HCDA operates through the Nairobi Godown, a Packing Station in Karatina and a branch in Mombasa. The produce which is handled by HCDA locally is onions, tomatoes and pineapples only. HCDA is one of the many Boards and Authorities in Kenya which has taken over increasing marketing activities apart from its regulatory functions and inquitably in this connection, the problem of conflicts between the regulatory and the commercial functions comes up. It means that HCDA is using its regulatory power in favour of its own commercial activities. This situation will probably jeopardise a fair competition in the horticultural market which should lead to fair prices for the small scale farmers and to an increasing supply for the customers.

HCDA seems to be a well established institution although it still faces alot of management problems which are similar to those of the HCU. But because of a direct concern of the Ministry of Agriculture and its more reliable basis for its revenues it is operating now on a profit basis. It should be worth discussing to confine HCDAs activities to regulatory, coordinating and service functions, which can be utilised by all suppliers and customers within the horticultural industry. In order to carry out these functions independently HCDA may have to rate increased levies or cesses from the traders in the horticultural market.

D. MANAGEMENT PROBLEMS AND STRATEGIES

1. Personnel Management

One of the major problems within the Parastatals of the horticultural industry has always been a lack of qualified staff and it is obvious that these problems have created a lot of financial and organisational inadequacies. The reason for this under-qualification can partly be seen in poor appointment procedures but are also due to the fact that within Kenya it is difficult to recruit staff which has administrative experience and horticultural experience at the same time. Moreover, the level of salaries is not that high that it could attract really qualified staff, in fact it is about 30-50% lower than in the private sector.

Poor management within these Parastatals is found on each management level, that means, within the Board or Management Committee, on the level of the General Manager and also amongst the senior management staff, which is mainly responsible for procurement, marketing and administration. During the last years there was an extremely high turn-over of personnel especially at the level of the General Manager and the senior management staff. Some key positions were unfilled for several months. The lack of continuity of leadership of course has affected the internal performance of these Parastatals, their long term management strategy, and a lack of co-ordination and knowledge of the horticultural business.

In this connection a good documented report, statistic and accounting system could help a lot to facilitate the introduction of new staff and could support the decisions and actions if there is a well organised organisational and communication framework. But because of the high turnover of personnel, there was no time to create such a documentation system. In most cases each manager who started his job tried to introduce his own personal system but could not complete it because of lack of tenure on his job. Despite all this there are a lot of useful information sheets prepared and the organisational system forms and the registry systems are much better than could be expected. The problem is that this information which is prepared is not up-to-date or the actual management does not even know that this kind of information has been prepared formerly.

Solutions for such a situation can be found of course, in reducing the high turnover, introducing proper appointment procedures and by training the available staff in order to improve their qualification. But it was found during our investigations that this is not the only solution and possibly will not lead to any important improvements.

While one has to acknowledge that the horticultural business is a complex one with high time-pressure, perishable products to handle, diversified products and a complex market structure it is assumed that these problems cannot be overcome unless the motivation of the management and the staff as a whole can be influenced. It has been observed that a manager in these

Parastatals, and this may apply not only to the horticultural sector, is more concerned with this family and tribal background than with the institution for which he has been appointed. In an environment where the family and tribal traditions are very strong and the artificial institution of an enterprise is quite new, the manager in general does not identify himself with this organisation, at least he is more dedicated to his natural environment. Therefore, all decisions he makes, concerning the activities of the enterprise consider to a high degree his personal interests. That means, he has mainly in mind the improvement of his own financial situation or for instance the recruitment of his own family or tribe without necessary qualification. The impression is that because of a considerable gap between rich and poor in developing countries there is very little delegation of decisions but the desire of the management is to secure its own influence in order to control the benefit of decisions.

For the same reason we found a lot of secrecy within the Parastatals which is maintained because it is intended to keep the decisions process intransparent in order to hide possible underqualification or weak decision making. A possible solution in this context could be a higher publicity of Parastatal's activities which should be provided by law.

Studying the past performance of Parastatals we very often found within the horticultural sector the recruitment for top-management politically motivated and not according to professional qualifications. This also has contributed to lack of continuity in leadership. Since the lower management level had been occupied in the meantine with quite a well trained personnel of a new generation, there is lack of communication and mutual understanding between these two management levels. On one hand top-level management fears to delegate responsibilities to these professional people and is therefore often overloaded and not efficient, and on the other, the lower level is not motivated enough because it has no discretion according to its qualification. But there is a communication gap between the senior staff management, the middle management and the operational staff as well. The educated management staff does not feel any obligation to communicate and explain company's objectives to this lower qualified group. The impression is, that the Harambee and Nyayo idea which has strengthened the economic development in Kenya, has not yet been introduced or applied to the activities or members of parastatal organisations in this case.

Another very common problem in the horticultural sector is that a lot of recommendations made by various study teams and commissions either appointed by the Ministries concerned or by the Parastatal itself, have never been implemented. The impression in this connection is, that these appointments are very often something like an alibi for the management, to hide problems which are obvious but where no implementation or follow-up of these results has been done. It was also observed that there is alot of valuable recommendations from various advisers which do also a very good job in analysing the problems and the situation but there are only a few indications on how to change the situation and how to transform the recommendations into an action programme. At this stage the management is often left alone until the next study-term appears to evaluate what has been achieved. As there is supposed to be something wrong with this procedure, it is suggested that advisers should be integrated into the implementation process. This should be part of their advice. On the other hand the management should participate during the whole process of investigation and finding of solutions for only through that, will they identify themselves with the results. In many cases this will not be sufficient to motivate the management, as they will not really act as a team to find a solution for the improvement of its own situation. Preferably, it could be an improvement if study teams or advisers are not only carrying out or delivering a report, but instead try to assist the management team of the Parastatal to find its own solutions and to enable them in the skills of problem analysis, decision making and design of solutions, structures and strategies for their own organisation.

In the case of the horticultural industry it seems that the counterpart principle could not be successfully applied. There were several attempts to assist the management of the organisation of the Parastatals by providing a General Manager or Marketing Manager from abroad for a certain period. It seems however, that there was no clear concept for an introduction and the training of a Kenyan Manager, either due to lack of time or since the aspect of continuity of leadership was not given high priority.

Summarising the managerial problems in Parastatals in the horticultural sector, and possible solutions for appropriate strategies, one can say that:-

1. There is a lack of clear objectives explained to the management and the staff because they rely more on control techniques for supervising than on motivation by objectives;

2. There is a lack of qualified staff due to policy interference, low levels of salaries, weak appointment procedures and lack of training and professionalism;

3. There is a lack of co-operation between various management levels and therefore a lack of delegation in decision making, storage of information, and a lack of team-work;

4. There is a lack of knowledge on how to implement organisational changes and how to design and implement long term plans;

5. There is too much confidence in job-descriptions and organisational structures concerning lower level posts, but for the very post of the General Manager, a job description is missing.

Strategies to overcome the managerial problems should consist mainly in improvement of the motivation of management and operational staff. Although there is also a lack of working capital with regard to the objectives and activities of the Parastatals, lack of technical facilities and proper selection and introducing job descriptions for key personnel like the General Manager together an annual plan of action for the G.M., designed by him and approved and controlled by the Management Committee of location, an improvement could be achieved by

- introducing the Harambee idea within the Parastatal organisation,
- establishing financial incentives for the staff, correlating with profits made or services provided
- improving working conditions
- promoting goal setting and explaining and participation
- establishing permanent implementation and brain-storming teams of the management
- promotions of "self-made" organisational development
- supplementing control and supervisory techniques through departmental and organisational planning and budgeting.

Apart from these strategies an intensive and varied training programme for the management at all levels seems to be very necessary. Training should start with the members of the Board in order to provide them with professional knowledge on management functions. They should particularly know how to request key informations enabling them to evaluate the actual performance and future prospects of the public enterprise. In this case training should be provided as a kind of workshop including Board members of various public enterprises. Better trained Board members will be in a better position to evaluate more critically the performance of the General Manager and to become more independent from his information policy.

A better trained General Manager will provide essential information to the Board and will give much more assistance in policy-decision making. But at the same time he should be under the above mentioned professional control of the Board.

Training in motivation and implementation techniques and decision making will improve the managers ability to convince his staff to be more dedicated and to improve their skills as well.

All management levels, including the heads of department should accept an attitude where training is recognized as a permanent need and as a necessary part of the working time of each member of the organisation in order to meet the challenges of a changing society, technology and environment in general.

2. Marketing problems and strategies

Concerning the marketing of the horticultural produce we have to keep in mind, that there is the Horticultural Development Authority with its regulatory functions and secondly the Horticultural Co-operative Union as part of the Cooperative movement with its objective to serve the small scale farmers through its primary society members. Furthermore, there is a majority of private competitors in this market. There is a great variety of horticultural produce to be sold on the local market and for exporting as well. HCDA is the more powerful Parastatal organisation because of its regulatory functions. All other companies, including HCU have to apply at HCDA for import or export licences. Originally, HCU was acting as the sole agent for the selling of onions for the HCDA, but in 1972 HCDA took over herself 50% of the marketing of onions and left only 50% to HCU. Originally, HCU was the importer for delicious fruit from abroad, but in 1970/71 HCU lost this privilege mainly because of import restrictions from the Government. Originally, HCU was the one exporting untill the last few years when HCDA started operating in this field.

Consequently, not only is there stiff competition in general in this horticultural market but there is also a competition between these two governmental institutions which should exibit coordination and complementary action. As can be seen, the HCU as a result has no regulatory competence and is mostly treated like other private compeiitors. HCDA as a regulatory body started trading activities after a Ministerial Cabinet directive, which decided that

Parastatals should oprrate on their own budget so that their expenses could be covered by their own income. In the following years HCDA could manage to make a profit whereas HCU was always in the red. During recent years, the number of exporters highly increased which affected the available airspace for transportation which made the handling of its produce much more difficult than in the past. Whereas HCDA could overcome these problems better, partly because of its more active role, and because of its regulatory functions, HCU had to suffer from the lack of organised outside contacts and aggressive marketing activities. Instead of approaching new suppliers and new customers, there was merely await and see policy implemented. Personal contacts, visits and "barazas" with suppliers and also visits to customers were neglected.

Looking at the organisational structure of HCU it can be seen, that the function of a liaison officer for Co-operative Societies is established on a very low management level and moreover this function is reported as vacant. Problems are also created by the wide variety of produce which is sold by the HCU, although it is only four or five products which contribute more than 50% to the turnover. There is also a lack of service for the suppliers. Farmers are complaining because of non-payment or delay in payment by the Union and there is almost no advice for the suppliers on how they should cultivate their produce and which prices they can expect. No loans are provided for the growers and produce is just taken and marketed as it is. It is because of this kind of poor service of the Parastatals that farmers are more open to private competitors who offer them lower prices but prompt payment in cash and provide them also with loans which the farmers badly need for investment.

It is surprising that the stiff competition within the horticultural market has not contributed towards an improved efficiency of the Parastatal organisations as one might have expected. The problem here is, that one Parastatal is relying mainly on its privileges as a Statutory Body whereas the other one (HCU) is just asking for the same privileges or is relying on the Government which eventually is expected to take over the losses.

In order to overcome these problems described above, first of all both of the Parastatals should coordinate their activities and strategies. This has been made difficult because they are assigned to different ministries. Some basic strategies have therefore to be coordinated between these two ministries. There should be at least a division of labour concerning

- the marketing of onions
- the importing of fruits
- the export activities.

Maybe there is also the possibility of dividing the local market along various districts for which each Parastatal feels responsible for the marketing functions. In order to coordinate the activities and strategies, the day to day business as well as the long term planning, there should be mutual representation in the Boards of the two Parastatals and there should also be regular meetings of the senior management staff. Such meetings and discussions could contribute to a development whereby HCU will no longer justify its weak performance because of the privileges of HCDA and HCDA will no longer consider HCU as an unnecessary organisation which could be wound up. This mutual agreement on the organisation of the horticultural market should also consider and allow the trading activities of private competitors, for instance through organising the export traders as one Co-operative or Agency which could strengthen the Kenyan position with regard to the importing countries. Concerning the local market the Parastatal bodies should establish buying centres in the growing areas of horticultural products, which could in some cases be upgraded in packing or grading stations. This would help the farmers to deliver the produce and could strengthen the Parastatal supplying functions for the horticultural market. Another strategy should be to establish improved payment conditions for the farmers. The Parastatals very often do not get the produce from the farmers by direct purchase but are taking the produce on the market. There could, however, be an improvement in such a way that 50% of the assumed value of the produce is paid immediately after delivery and the rest after the produce has been sold.

Furthermore, each of these horticultural Parastatals could specialise on a range of horticultural products which they mainly market and where the other Parastatal body has only a supplementary function.

Altogether it means that both Parastatal bodies would justify their existence through improved performance by coordinating and sharing their facilities especially storing and transport facilities, which are extremely important within the horticultural business, and making agreements on which suppliers, customers (export, local, wholesale, retail) should (be served in which regions and with which products). At present there is a lack of such a coordination which should be accompanied by a cooperation between these Parastatals concerning price information, research, training advisory and developmental activities on horticultural products. But as long as HCDA as a regulatory body is also involved in trading activities, there will always be the problem of mal-practice of this regulatory function in favour of its own activities.

An alternative therefore, would be to confine HCDA on its regulatory functions and have the HCU take over all the marketing of produce concerning the smallsscale growers and the local market. Furthermore, there will still be room for activities of private traders which could organise into an export Co-operative under the control of the HCDA. It is quite obvious that this solution is not the only possible one, but it promises to bring an improvement as compared to the present situation. This state of affairs will neither support the Cooperative Movement nor strengthen the development of the horticultural sector as part of the economy.

3. Service to Small scale Farmers

The Parastatals in the horticultural sector should help under-priviledged groups through promotion so that the role of Parastatals in the horticultural sector could be justified. One Parastatal could provides the necessary control to achieve the objectives and the other provides the services which would not be secured by private enterprises. But these services should have the effect of increasing the number of viable small scale farmers growing horticultural products, improve their know-how and financial basis and income situation and supply horticultural produce to remote areas of the local market.

Other objectives like export activities, quality control and improvement, up-grading and processing of produce should only be considered by Parastatals in so far, as they are in line with the above mentioned service functions. This strategy could also apply as a decision criteria for how far private enterprises activities and competition should be tolerated or even promoted. In any case this aspect should have its role in the decision making and policy making process of Parastatals in this sector.

It is particularly doubtful if the Parastatals in the horticultural sector have achieved or have even in mind an implementation of this kind of strategy. There is almost no service of the Parastatals in terms of loans, advice, training of smallscale farmers, and on top of that there are; low prices, poor payment conditions and a lack of transport facilities, and storage. The Parastatals should therefore give the handling of these problems a much higher priority within their plans and budgets. A high ranking officer should be made responsible for relations with small scale farmers including membership aspects for Co-operative Societies. The Parastatals should set up an organisational structure where this function is ranging just under the General Manager and carried out by a dedicated officer with support of a qualifed staff. He should organise the services of the Parastatals within the limits of a given budget. One of his functions should be a permanent evaluation of the objectives, activities and achievements of the Parastatals according to these service functions for the smallscale farmers. Personal contacts new letters, of the Parastatal to its supplier informing them on prices, problems and prospects of the horticultural sector and the Parastatal's activities and the establishment of buying centres could be a start in the right direction. It could help to evaluate the activities not only in the light of profit and loss, but with regard to the Parastatal's developmental functions.

E. CONCLUSION

From our studies in the horticultural industry we can confirm many of the findings of the Ndegwa Commissions, particularly concerning financial mismanagement, qualified lack of management reports, lack of accountability, weak role of the Board, staff and poor budgeting. Apart from that, coordination and cooperation between different management levels, between different departments and among Parastatals is very weak. But even if information and knowledge about techniques were there, lack of motivation as a major problem remains preventing the mobilization of information and knowledge and the allocation of the resources which are available.

Some strategies have been mentioned which could overcome these problems. But there is a considerable need for further research and for a broader discussion of this issue. The Institute for Development Studies is going to contribute to a further analysis of the performance of public enterprises through other case studies in various sectors of industry and by a survey of the problems and having needs of the top management.

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THE ROLE OF PUBLIC AGRICULTURAL ENTERPRISES IN TANZANIA WITH REFERENCE TO STATE FARMS

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1. INTRODUCTION

At the time of independence in 1961, Tanzania had inherited an agricultural structure, which was relevant to the metropolitan states. Agricultural production was principally geared at serving the colonial master's industries. Such a development led to persistent deformation of the Tanzanian economy and to economic underdevelopment.

The abolition of agricultural backwardness, and the establishment of an efficient agricultural system, was one of the major issues of consideration in the agricultural policy, which followed soon after independence. Various agricultural programmes and institutions were recommended, as an alternative to rapid social and economic development in the rural areas. Among them were, public agricultural enterprises, which, though not vocally advocated, have managed to survive the abolition, basic changes, or being scrapped in the annual budget for the past two decades. It looks as if, they are now going to survive for many other decades to come. The largest single group in the list of public agricultural enterprises are state farms/plantations, which are basically production units.

This paper will not give a detailed account of the role of public agricultural enterprises in Tanzania. The paper tries to throw some light on the nature of agriculture in Tanzania in Section 2, before looking at the composition and role of public enterprises in Section 3. Section 4 briefly describes the trend and contribution of state farms to the economy, before winding up with the main issues of concern on Section 5.

2. THE STATE OF AGRICULTURE IN TANZANIA

After independence, Tanzania was faced with the task of eliminating economy backwardness, which was a colonial remnant. This backward nature, reflected itself in the low level of development of the people (education, health, housing) and in a lopsided economic structure. The methods and techniques of production were archaic, poverty and illiteracy were spread all over the country. As a consequence of neo-colonial influence particularly in the foreign trade, the situation has not radically changed.

The Tanzanian agricultural policy considers, that the present agricultural backwardness can be eliminated through, socio-economic transformation (ujamaa policies) and the implementation of economic developmental measures such as the improvement of instruments production. The ultimate goal is to produce enough for food, for industrial raw materials and enough for exports. In view of this, state farms' development is taken as one of the rural developmental production forms which can assist in solving some of the mentioned problems.

2.1 Agricultural resources and their utilization: Land resources:

Tanzania occupies an area of 93,970 sq. km. and has a population of approximately 18.0 million (1980) (World Bank (WB) 1980, Markie 1976).

Almost two decades have elapsed since independence. Nevertheless, the agricultural resources, such as land, water, animals, and the available labour power, are insufficiently used. There is enough land, which could effectively be used (See Table 1).

Table 1. The development of land utilization in Tanzania (in 1000 ha)

	1961/65	1970	1975	1976
Total area	94,509	94,509	94,509	94,509
Land area	88,604	88,604	88,604	88,604
Area under crops	3,349	5,130	6,070	6,290
Arable land	2,613	4,180	5,000	5,200
Permanent crops	736	950	1,070	1,090
Meadows	45,240	44,960	44,760	44,720
Forest	33,942	31,074	31,074	31,074
Others	6,073	7,440	6,700	6,520

Source: FAO: Production Year Book 1976, Vol. 30, Rome 1977.

Table 1 indicates, that in 1976 only 7% of the land area was under crops. This implies, that there is still more land, which could be used for the expansion of both crop and livestock production. Large scale farming, which comprises mainly of sisal plantations and other crop farms, occupies almost 1% of the land area (Chai 1979 edits and others (a.o.).

Livestock: Another distinctive feature to the Tanzania agriculture, is the large size of cattle herd about 12 mil. in 1979 (TFNC 1980). These animals are scarcely used for labour purposes, and insufficiently slaughtered for the supply of meat (See Table 2).

Table 2. Estimates of per capital consumption of animal products in Tanzania, 1972 and 1981 in kg.

Source of meat products	1972	1981[1)]
Cattle	7.70	10.530
Goats	1.10	2.400
Sheep	0.43	-
Pig	0.08	0.125
Poultry	0.80	1.400
Milk (litre)	2.80	3.000

1) Per-capita figure for 1981 is based on the population estimate of 17.9 mil. in 1981.

Source: Govt. of Tanzania: Third Five Year Plan for Economic and Social Development 1976-1981, Vol. I, Dar es Salaam, 1978.

In 1973, rural beef consumption stood at 7.5 kg. Cap/year. The national per capita beef consumption was 23.5 kg./year (Mackenzie, 73.5). This gives a ratio of 3:1, between the urban and rural dwellers. However, recent research findings indicate, that the difference in beef consumption between the two groups is narrowing for worse (See Table 3).

Table 3: The supply of beef per capital in Tanzania 1971-1977.

Year	Urban Supply	Rural Supply	National Supply
1971	32.9	7.4	9.3
1972	25.4	7.1	8.5
1973	21.7	8.0	9.1
1974	20.5	4.9	6.3
1975	20.4	4.9	6.5
1976	19.4	6.4	7.9
1977	11.5	7.2	7.7

Source: TFNC: Data Report on the Food and Nutrition situation in Tanzania 1973/74 - 1977/78. Department of Planning, April 1980 Table 13.8.

The trend shown on Table 3 is partly due to the impact of high meat prices and other consumer goods, on which the consumers have to spread their thin income. Consumers have to look for other less costly alternatives of protein source, if they are to escape malnutrition. At a national level, the alternative is that of opening more state ranches, in order to supplement to the existing supply and finally set prices, which are favourable for both the livestock-keeper and the consumer. In addition, the animals are small, weighing about 113 kg. when slaughtered (Mackenzie 1973). Related to this problem is the low yield of milk per cow. Most of the Tanzania short-horn-Zebus, about 10 mil. cattle, produce on the average between 250 - 500 litres. The 3000 graded cattle produce almost 3000 lit.es i.e. 1000 litres per cow/per year. Milk consumption in 1977 showed that 22.2 and 36.6 litres, per capita are consumed in the rural and urban areas respectively. With the establishment of more dairy farms, and if the dairy processing plants operate more efficiently, more milk should be available to the public.

Human Resources: Furthermore, there is an extreme disproportion in the economy. Most unfavourable, is the high percentage of agricultural labour force, which has been declining very slowly in more than a decade (compare with Table 4).

Table 4: Population growth in Tanzania 1965-1978 (in thousands)

Year	Total population	Rural Population in %	Economically active population	Economically active population in agric. in %
1965	11,616	87.6	5,121	87.7
1970	13,273	86.0	5,850	86.0
1975	15,388	83.6	6,488	83.6
1978	16,886		6,975	82.1

Source: World Bank, World Development Report, 1980, Washington, D.C., August 1980, p. 146.
FAO, Production Year Book Vol. 32, Rome 1978.

The slow decline as shown in Table 4 indirectly indicates, that industrialization and service sectors, which would otherwise absorb more people are expanding and growing slowly. In a country like Tanzania, where unorganised peasant production is predominant state farms seem to be the possibility of having targeted and specialized production implemented (at least in the near future).

Another distinctive feature of Tanzanian agriculture, is the under-employment of the farmers. This is necessitated by the low development of the productive forces, and the heavy dependence on the natural conditions. As a result, most of the farmers are productively engaged for about 700 hours with a maximum of 1500 hours (Sharma 1973, TFNC data 1980). The labour productivity in agriculture as well as in the national economy is still very low. Compared to USA, the labour productivity in Tanzania stands at 1% (USA 1973 = 100) (Griening, 1977).

Paralelled to these problems, the Tanzania agriculture is identified by the reasonable percentage of illiteracy. The national record (1975) show, that the adult literacy rate is 66% (WB 1980, p. 154). Whereas in 1960 only 25% of the school going age could enter primary school, in 1977 about 70% enrolled themselves in primary school. Since November 1977, about 97% of all school going age children enter primary school. Most immediate problems are in connection with the teaching staff, classrooms and in the long run, the preparation of employment opportunities for school leavers, for since school is for all, jobs must also be for all. The problem of education is crucial, because the efficiency in the labour process is directly linked with the qualification of the individual at work. This means, increase of productivity and education (qualification) are interrelated factors (Schmidt 1972). Research on educational status of workers in state farms indicate that eradication of illeteracy, through adult education programmes is carried out successfully. In addition, farms with a high percentage of literacy and qualified management show a better farm performance.

The average life expectancy at birth in 1964 was between 35 and 40 years, it ranged between 40 and 41 in 1967 and reached 45 in 1975. In 1978 it recorded 51 years (WB 1980; Govt. of Tanzania 1978).

Technology of Production: The low level of the means of production used, and the degree of intensification, is particularly noticeable, in the use of a hoe, as a major farm implement of a farmer. Ox-ploughs, and tractors, as well as irrigation farming is rarely used in the smallholder farming. In 1975, Ox ploughs were recommended as an alternative to better farming and as a a means to intensive agricultural production. The June 1980 Prime Ministers' Budget speech to Parliament and that of the Minister of Agriculture, all recommended the introduction of tractor farming in the villages. However, 91.7% of all holdings cultivate less than 3 ha, 5.6% cultivate between 3-5 ha and only 2.7% cultivate over 5 ha. (See Table 5).

Table 5: Size Distribution of Land, 1972.

Farm size (ha)			Number of holdings	% Total holdings
		0.5	771954	31.5
0.5	-	1.0	651386	26.6
1.0	-	2.0	605291	24.7
2.0	-	3.0	218375	8.9
3.0	-	4.0	88696	3.6
4.0	-	5.0	49985	2.0
4.0	-	10.0	53252	2.0
		10.0	11625	0.5

Source: Dharama Ghai (edits) a.o. Agrarian Systems and Rural Development, The Macmillan Press Ltd. 1979, p.243.

This pattern of rural structure, gives little opportunity in the use of modern farming machinery, which demand large areas of land to be ploughed Unless the rural (settings) farms are properly organized such as in the form of block-farms; state farms will still be the most appropriate place of introducing modern farm machinery, for both experiment and production.

The use of bettern seeds (High yielding varieties HYV) is not very common in the farming communities. Together with this, is the insufficient use of agro-chemicals and other intensification factors, which can improve and hold the soil fertility and the crop yields. As a result of this, the recorded Tanzanian crop yields are well below the world averages and of industrialized countries (See Table 6). As mentioned earlier, the use of agrochemicals (fertilizer, plant protection chemicals) in the peasant holding is still insignificant.

Table 6. A Comparison of Selected Tanzanian Crop Yields to International Yields (1978 in 100 Kg/hectare)

Crop	World	Africa	Tanzania
Maize	30.8	13.2	7.7
Rice	25.9	17.4	13.0
Wheat	19.0	10.7	13.0
Sorghum	13.3	7.4	7.1
Beans	5.8	5.7	5.2
Sweat Potatoes	83.6	62.0	62.1
Irish Potatoes	150.3	87.1	38.3

Source: FAO: Production Year Book Vol. 32, Rome 1978.

Compared to other countries, the use of fertilizer is as shown in Table 7.

Table 7: Use of Fertilizer in Tanzania as compared to other International Values (Kg/ha Arable Land NPK)

Tanzania	1960/61	1965/66	1970/71	1974/75	1975/76
Tanzania	0.1x	0.10	0.2xx	0.5xx	0.6xx
World	7.7	8.50	11.4	19.5	20.8
Africa	0.8	1.18	1.8	2.3	5.0
Europe	55.7	74.00	103.8	123.6	126.6

x 1961 to 1965
xx Calendar year.

Source: FAO: Annual Fertilizer Review 1971, Rome 1972, p.47.
FAO: Annual Fertilizer Review 1976, Rome 1977, p.10, 12.

Table 7 indirectly indicates the reason behind the low yields of crops. In a country like Tanzania where unorganized peasant production is predominant state farms seem the possibility of having targeted and specialized production implemented (at least in the near future).

2.2 Agriculture's Contribution to Economic Development Production

Agricultural production still remains the major contributor to the Gross Domestic Product (GDP). It contributed 46.7% at the beginning of the first five year plan i.e. 1964, 42.0% in 1969 and 36.7% in 1974. In 1978 it stood at 39.5%. Industrial sector contribution to the GDP is about 10% (Refer Hali ya Uchumi wa Taifa (HUT) 1979/80, p. 10-12). Production of important agricultural crops in Tanzania is as shown on Table 8.

Table 8. Production of Agricultural Crops in Tanzania in 1000 Metric Tons

Crop	1970/71	1974/75	1975/76	1976/77
Maize	650.0	623.0	825.0	896.0
Paddy	182.0	134.0	150.0	172.0
Wheat	61.0	35.1	46.1	57.6
Sorghum/Millet	150.3	189.6	339.0	360.0
Coffee	49.7	52.1	55.4	52.7
Cotton	76.6	70.5	42.5	67.1
Tea	8.5	12.9	13.7	16.7
Tobacco	12.0	14.0	14.9	19.1
Sisal	202.1	142.1	127.8	105.0
Cashewnuts	111.2	117.2	83.0	96.8

Source: TFNC: Data report on the Food and Nutrition Situation in Tanzania 1973/74 - 1977/78. Bank of Tanzania: Econ. Bul.Vol.XI - No.2,p.44.

These crops play a key role in Tanzania economy, for they include among them important staple food crops and export crops. Efforts are being made, in order that farmers produce more food - and cash crops. Important measures include changes in the pricing policy and the opening of new agricultural projects (United Republic of Tanzania (URT) 1979).

Exports vs Food Production: The nature of agriculture in the economy is clearly identified through agricultural exports (compare with Table 9).

Table 9. Agricultural Exports as Compared to Total Exports in Tanzania (in mill. Shs.)

Year	Total exports	Agricultural exports	Agricultural Exports as a % of Total Exports
1969	1795	1386	77.2
1970	1852	1417	76.5
1971	1989	1383	69.5
1972	2277	1723	75.7
1973	2581	1991	77.1
1974	2861	2292	80.1

Source: Government of Tanzania: Third Five Year Plan, op.cit. p.66.

The greater part of agricultural exports (60...65%) is made up of eight important crops: coffee, sisal, cotton, cashewnuts, tobacco, tea, pyrethrum and oil-seeds (Govt. of Tanzania 1974/75; Malecela 1976; TFNC Data 1980; HUT 1979-80).

Such an export-situation weakens Tanzania's ability to bargain in the world market, thus accepting dictated prices, which are not even enough to buy the necessary goods for development. Tanzania's industrial sector is still underdeveloped, and there are only a few state farms, which are economically stable. The integration between agriculture and the few established processing industries is also insufficiently developed. This situation is partly because of the available industrial capacities, which cannot process all the raw materials marketed (See Table 10). On the other hand, it is caused by the common phenomena and dilemma i.e. under-capacity utilization and the shortage of competent manpower. As evidenced by Table 10, about 75% of the produced cash crops are exported unprocessed. This has a severe impact in terms of prices, and the producer is always at the mercy of the buyer.

As a consequence of low degree of agricultural intensity and heavy dependence on natural blessing, the agricultural economy is always disrupted by natural calamities, such as drought, floods etc. Statistics indicate, that

Table 10: Production, Internal Processing and Export of Cash Crops (Estimates)

Crop	1973 Total Production 1000 t	1973 Internal Processing %	1973 Unprocessed exports %	1981 (Projections) Total Production 1000 t	1981 (Projections) Internal processing %	1981 (Projections) Unprocessed exports %
Cotton	68.6	16.0	84.0	110.0	21.0	79.0
Sisal	155.4	2.6	97.4	200.0	65.0	35.0
Tobacco	12.7	23.6	76.4	38.0	15.8	84.2
Tea	12.7	21.3	78.7	24.0	16.7	83.3
Coffee	54.6	2.4	97.6	65.0	3.1	96.9
Cashewnuts	139.4	0.1	99.9	166.0	44.6	55.4
Pyrethrum	3.5	-	-	81.0	1.2	98.8

Source: Govt. of Tanzania: Third Five Year Plan for Economic and Social Development 1976-1981 Vol. II, op. cit. p.17.

Tanzania is hit by natural calamities, which lead to hunger after every five years. The 1973/74 drought forced Tanzania to spend about Shs 800 million worth of foreign exchange for importing maize, rice, wheat and sugar (Refer Bank of Tanzania (BOT) 1975; Govt. of Tanzania 1978). The problem of inadequate food supply, which leads to food import dependence is also evidenced by Table 11.

Table 11: Purchase and Sale of Important Food Crops in Tanzania 1969/70 to 1975/76 (in 1000 t)

Year	Maize Purchase	Maize Sale	Rice Purchase	Rice Sale	Wheat Purchase	Wheat Sale	Sugar Purchase	Sugar Sale
1969/70	54.1	123.4	58.9	41.8	21.0	56.7	76.6	90.8
1970/71	170.0	111.6	93.5	52.1	42.9	59.7	89.5	107.7
1971/72	43.0	160.0	68.6	75.8	57.1	88.6	94.2	130.2
1972/73	114.1	154.0	73.1	97.8	51.3	53.9	92.6	133.1
1973/74	73.6	242.4	59.7	82.3	32.8	32.7	106.1	139.0
1974/75	24.9	190.7	23.6	36.7	15.0	43.0	101.6	93.0
1975/76	91.1	51.1	11.6	99.8	25.8	18.1	95.7	97.0

Source: Govt. of Tanzania: Third Five Year Dev. Plan for Economic and Social Development 1976-1981, Vol. 1. op. cit., p. 13.

Jamhuri ya Muungano wa Tanzania: Hali ya Uchumi wa Taifa katika mwaka 1979-80, p.5.

Table 11 indicates, that in the period between 1969/70 and 1975/76 practically every year food had to be imported (except 1970/71 for maize and rice as well as 1975/76 for maize, wheat and sugar), to supplement to the local supply, in order to meet the local food demands. Such a situation seriously affects/distorts the countries economic stability.

It is hoped, that state farms, if properly managed and organized can give solutions to some of the most basic problems described above.

Rural Incomes: In the farming units, the volume produced is low, the per capita income is low, accumulation is low and finally the economic growth is also very slow. This partly explains the reason why, in general the farmers have low yearly incomes, which again vary from one region to another. In 1970, the average upper limit of the farmers income recorded Shs 760.00, and the lower limit was Shs 370.00 (Msambichaka, Mabele 1979, Markie 1976). Farmers, who had a per capita income exceeding Shs 500.00 were found in areas, which produce primarily export crops and are in access to better communication system (infrastructure). Per capita income increased from Shs 515 in 1964 to Shs 580 in 1969. At the end of the second five year plan, that is in 1974, the per capita income recorded Shs 660.00. Five Year later that is 1979, the per capita stood at Shs 1894.80. This is almost three fold that of 1974 (HUT 1979/80, WB, 1980).

2.3 Problems of Agricultural Development in Tanzania

There are many problems of agriculture. However, some of the most basic ones fall within the following frame-work:

(a) Organizational Units:

Here it is referred to the problem of organizing and managing production units, such as individual farms, communal and state farms so that more is produced and earned. Many production units are faced with the problem of increasing their efficiency and productivity. There is also a great need of examining the efficiency of marketing institutions/crop authorities in produce collection.

(b) Productive forces:

The problem of manpower is still acute in the agricultural sector. There were 8492 kilimo staff in 1977, out of which 531 were graduates, 781 were field officers and the rest were assistant field officers. In 1976 there were 3438 agricultural staff and 3267 veterinary staff. The intensity of extension staff showed that there was one staff per 1,1 ha crop area and one veterinary staff per 4.

On the other hand there is the problem of getting better instruments of production, and farm machinery.

Moreover, there is a need of emphasizing and encouraging production under irrigation. At the moment, area under irrigation is still insignificant. In 1973, out of 4435000 ha. which were under cultivation, only 126400 ha. were under irrigation. The increase of irrigated farming will increase the intensity of the area under cultivation, thus increasing production.

There are problems which are connected with the way researchers are conducted. There is a need to examine their appropriateness, urgency and the degree of duplication. However, the Tanzania National Scientific Research Council (TNSRC) in collaboration with other institutions are trying to look at this irregularity.

(c) Dependent Structure:

The export orientation (direction of agricultural trade and prices) and the overall economic instability greatly affects agricultural development. In addition, lack of processing capacities, the utilization of the existing ones below optimum level, and the lack of proper linkages between agriculture and industrial sector also contribute to the inconsistency and slow growth of agricultural development.

(d) Financial Resources:

A consistent and steady increase of development expenditure on agriculture is necessary. In recent years 1974/75 - 1978/79 actual per capita development expenditure on agriculture has undulated from Shs 3.70 in 1974/75 to Shs 8.20 in 1975/76. It went down to Shs 4.60 in 1976/77 up to Shs 5.00 in 1977/78 and then to Shs 6.30 in 1978/79 (TFNC Table 30.5). The problem of credit facilities has to be examined and made more available and diversified with a purpose of increasing agricultural production as well as productivity.

(e) Institutions of production:

They should contribute to output more productively and at the same time, safeguard the peasant production shortfalls of essential agricultural commodities, such as food. In addition, there should be institutions of innovation which would then spread the adoption of new technology to the farmers.

3. The Composition and Role of Public Agricultural Enterprises in Tanzania: A Brief Outline:

The establishment of public agricultural enterprises in Tanzania soon after independence was considered an appropriate basis for economic development. After the Arusha Declaration, it was documented as one of the instruments of economic development. Most of the enterprises have been established through two distinct ways:

(a) Nationalisation of big enterprises, which belonged to rich farmers;

(b) Establishment of new enterprises.

There were 8 agricultural parastatals in 1974 which employed 30,540 workers. Total employment in the total agricultural public sector was 52,365. Contribution of agricultural parastatals to GDP was 1.5%. Total parastatal contribution was 10.7% and of public enterprises was 14.9% (Lyakurwa, Mabele a.o. 1979). Public agricultural enterprises in Tanzania include the following major areas of activities:

1. State farms: These type of enterprises function primarily as production units. Their activities are being economically directed by respective holding companies, such as the National Agricultural Food Corporation (NAFCO) and Tanzania Sisal Authority (TSA). Other farms are under Regional Administration or District Development Corporations (DDCs). There are also experimental stations and research center, which are mainly under the Ministry of Agriculture. These units are expected to spread and teach the latest achievements of science and technology to the nearby villages and the country at large.

Since 1974/75, most of the former mixed state farms have now specialised in either crop, mainly grains, or livestock production. Livestock farms are based on extensive pasture feeding. Poultry farms have been started, but they still have to be developed. State farms seem to dominate the public agricultural sector in Tanzania.

2. Processing and Manufacturing Industries: Publicly owned processing industries for agricultural products are considered crucial in Tanzania economy. Most of the processing industries are engaged in fruit canning and cereal processing. National Milling Corporation is the holding company for all public owned subsidiaries, which are connected with the processing of fruits and grains. Tanganyika Packers Ltd. is for meat processing and Tanzania Dairies Limited is for the processing of milk and milk products. There are also public

textile industries, which manufacture finished and semi-finished textile products. In addition there are public industries for the processing of coffee, sisal, cashewnuts, tobacco, pyrethrum, tea and oil-seeds.

The establishment of agricultural processing industries, has relatively contributed to the industrialization programme, and to the weakening of subsistence economy. On the other hand, the dependence of these commodities from foreign countries has been minimized. The processing of locally produced agricultural raw materials into high quality products has been advocated since the first five year plan. These industries which fall under the umbrella of "Import substitution policy" were considered necessary for economic independence.

3. Corporation and Crop Authorities (Marketing) Because of its socialistic policies, public enterprises in the field of agricultural marketing are considered a necessity for a stable agricultural economy. It is a fact, that the Tanzanian agriculture is on transition from subsistence to market economy. This development process demands for a proper and well organized public marketing system, with a high economic efficiency. For more than a decade, the agricultural marketing system in Tanzania had been in the hands of cooperatives and marketing boards. The only noticeable change during the period was, the establishment of a single channel marketing system in 1969 (Lyakurwa, Mabele, a.o. 1979). A major change occured in May 1976, when all cooperative societies were abolished. All marketing activities were subsequently assigned to eight (national institutions) public agricultural enterprises; namely:

- National Milling Corporation (NMC)
- Tobacco Authority of Tanzania (TAT)
- Tanzania Cotton Authority (TCA)
- Coffee Authority of Tanzania (CAT)
- Tanzania Tea Authority (TTA)
- Tanzania Sisal Authority (TSA)
- General Agricultural Exports (GAPEX)

Each of the eight institutions has been assigned districts of collecting the produce. The authorities buy their crop and other crops grown in the area. CAPEX is mainly buying oil seeds, and NMC buys cereals, and it is the largest produce collector of all (eight). There are indications, that, farmers associations, which are slowly coming to the surface, might be assigned some of the authorities' functions.

This method of marketing through public enterprises has in a way helped in strengthening and controlling though not very effectively, the internal market and in centralizing (or knowing where they are located) food crops and raw materials. It remains to be seen whether the producer has benefited more !

4. Financial Institutions: A public financial institution, with a strong agricultural bias has been established, in order to issue production credits to farmers, thus ending the speculative activities of the private money lenders. The Bank known as the "Tanzania Rural Development Bank (TRDB)" was established by Act No.7 of 1971. The Bank replaced the National Development Credit Agency (Msambichaka & Mabele 1979; Caselli 1975). Since its establishment, the Bank tries hard to fulfill its obligation of disbursing loans for agricultural development (See Table 13 and 14). Table 12 and 13 show changes in both the volume and distribution pattern after TRDB had started its activities in May 1971. Agricultural parastatals and companies (public enterprices), which receive credit from TRDB are usually those, which are connected with rural transport, ranching and dairy farm development.

In addition to TRDB, there is the Tanzania Investment Bank (TIB). This bank mainly issues long-term loans for industrial development and also large scale farms. Farm credits are also received from the National Bank of Commerce (NBC Credit Plan 1972-1979).

Farm Implements Units and Other Farm Services/Institutions: This area of public enterprises is not yet well developed in Tanzania, despite its importance for increasing and intensifying agricultural production. There is an idea of establishing tractor centres, whose implementation is still being worked out. At the industrial level, there is the Ubungo Farm Implements (UFI), which produces simple farm equipment (machinary). There is also the Tanzania Fertilizer Company (TFC). On the supply of farm machinery there is also the Tanzania Fertilizer Company (TFC). On the supply of farm machinery there is the Agricultural and Industrial Supplies Company (AISCO). There is still much to be done in connection with the establishment of centres, which look at the problem of plant protection chemicals, irrigation, and of agricultural transport.

Table 12. TRDB Loan Disbursement as Compared to Previous Financial Activities

Year	Total Loan (mil. Sh.)	Type of Borrowers & Amount in % Coopera-tives	Ujamaa Villages	DDCs	Agric. Paras./Cos.	Associa-tions	Partn-ers	Indivi-duals
1966/67	35.30	95.47	-	-	0.85	0.85	-	2.83
1967/68	14.80	89.19	-	-	-	4.05	-	6.76
1968/69	23.20	81.90	-	-	6.03	-	-	12.07
1969/70	27.20	76.47	-	-	1.47	-	-	22.06
1970/71	62.90	93.64	-	0.79	0.00	0.16	-	5.61
1971/72	35.80	65.64	13.68	4.47	6.42	2.24	0.84	6.71
1972/73	107.60	58.18	18.96	4.18	6.69	11.99	-	6.41
1973/74	160.70	37.34	20.04	16.80	14.00	11.70	-	0.12
1974/75	203.20	24.70	40.55	6.50	17.67	10.48	-	0.10
1975/76	100.00	22.19	19.80	8.66	42.09	72.26	-	-
1976/77	77.30	16.95	43.08	5.30	25.23	9.44	-	-
1977/78	246.90	-	41.64	0.24	28.51	29.12	0.08	0.41
1978/79	185.90	0.32	59.66	1.83	17.43	17.05	0.59	3.12

Source: Anonym: Rural Credit in Tanzania; Tanzania Annex 1 (No year).

Table 13. TRDB Disbursement of Loans by Type as Compared to Previous Performance (Shs. million)

Year	Total Loan	Agric. Inputs	Farm Mach.	Rural Trans.	Storage	Crop Dev.	Live-stock	Fisheries	Small scale Industries
1966/67	35.30	19.90	8.80	0.10	2.00	1.90	0.10	-	2.50
1967/68	14.80	11.00	1.10	0.00	-	0.50	-	-	2.20
1968/69	23.30	15.20	0.90	0.57	2.10	3.81	-	-	0.70
1969/70	27.20	23.0	0.90	-	0.20	2.04	0.20	-	0.90
1970/71	63.20	33.70	1.60	16.50	3.20	1.30	1.00	-	5.70
1971/72	35.90	21.00	1.00	6.50	5.30	1.00	0.50	-	0.50
1972/73	107.80	62.0	2.0	8.50	1.90	24.50	7.80	0.90	0.10
1973/74	160.00	85.90	1.30	30.40	0.50	12.80	25.80	1.30	2.70
1974/75	203.20	141.80	4.10	15.70	0.20	0.10	37.60	1.10	2.60
1975/76	100.50	38.10	1.00	1.10	1.40	-	57.70	-	0.90
1976/77	77.10	52.90	0.30	5.20	0.70	0.30	14.70	0.60	2.40
1977/78	247.10	170.70	1.50	4.60	0.20	-	58.10	10.30	1.70
1978/79	185.80	125.90	7.30	6.50	2.20	4.60	14.50	13.50	11.30

Source: Annonym: Rural Credit in Tanzania... op. cit. Annex 2.

4. Development Trend and Contribution of State Farms to the Tanzania Economy

4.1 Development and Trend before independence

State farm development in Tanzania basically started after promulgation of the Ujamaa concept. However, large scale agricultural production existed even earlier. During the colonial period, production was conducted mainly for sisal, rubber, coffee etc. The colonial government's policy on the production of these crops was:

- support the establishment of plantations for the "white farmers"
- force/encourage small-holders to produce export crops on the basis of demand of the colonial (mother country) government.

As a result of this policy, in 1909/11 there were 54 sisal and rubber plantations, with a total hectareage of 19274. Before independence that is in 1958, about 868,863.4 ha (approx. 1.1% of the land area) were under plantations, which belong to 1631 foreigners and 35 indigenous big farmers. In 1960, about 97783 ha. were under large scale farms with an average of 585 ha. per plantation (Shah 1976).

4.2 Post-Independence development and trend

In 1962, land was declared a public property, people were allowed to use it, but prohibited its selling. This helped to abolish some of the discriminating land laws which existed during the colonial period (Read Fimbo 1974; Govt. of Tanganyika, no year given).

During the first five year plan 1964/65 - 1968/69, six livestock farms (Breeding, 4 cattle ranches and one sheep farm) were to be established with a total investment of £543,150. Kongwa and Mkata ranches are still functioning. Two crop farms (Oil seeds and Rice) were to be established at a cost of £310,000. In addition, breeding and experimental stations were to be established in the regions (Govt. of Tanganyika 1964). The supply, the production of oil seeds and to introduce to the farmer, better seeds of paddy.

State farm development increased rapidly after the 1967 Arusha Declaration and the introduction of new rural development policy which was based on ujamaa development. The new agricultural policy was first applied in the sisal plantations; where in October 1967, the government took over 60% of the shares in 33 plantations and nationalized 6 sisal plantations. The new ownership pattern brought changes in the whole organization of the sisal industry as well as in the traditional markets, which severely affected the economy. Initially, there developed problems, because most functional managers did not possess the necessary experience needed for farm management and foreign trade.

During the second and third five year plans, more state farms were established. In 1977 there were about 108 state farms, which were under TSA, NAFCO, LIDA, the Ministry of Agriculture and the University of Dar es Salaam. Experimental and research stations were not included in this list. The total area covered by the public agricultural sector was as shown on Table 14.

Table 14. Distribution of Land Utilized within the public Sector (1977)

	Land utilized 1000 ha.	Percentage to total utilized
Total Agricultural Public Sector	1790	
Total area of state farms	1600	89.4
Grazing area of TLMC[1]	190	10.6

1 - Tanzania Livestock Marketing Company.

Out of 1.79 mil. ha. of arable land, only 0.89 mil. ha or 49.9% of the total area was used by the 108 state farms. Ranches occupied 73.2% of the 892,579 ha. dairy farms 2.3% and 24.5% by crop farms. Sisal production covers 88.6% of the total state farms crop area. The other remaining major crops are; wheat, rice and maize. With the expansion of wheat area in the Hanang - Wheat Complex, the total state farm annual crop area is bound to increase rapidly.

4.3 Contribution of State Farms to Tanzania's Development

There is a general feeling that state farms have not been doing well over the years. This allegation is rather too general to support, since there are state farms, which have production yields, which rank among the top in the world. However, one general observation is that, state farms play a small but significant role in export production. Some of the contributions, which have developed over the period of almost two decades of state farms development in Tanzania, can be summarized as follows:

1. Utilization of large land reserves:

A large area of potentially arable land is being used. A few examples will illustrate this. In the sisal industry, the total area, which was under public sisal plantations increased from 104.4 thousands ha. in 1969 to 194.0 thousands ha. in 1976. An increase of about 86% over a period of eight years. The Hanang - Wheat complex which covers at the moment about 10,000 ha. has plans to expand it to more than 40,000 ha. Mkata and Kongwa ranches, which are the oldest and also pioneer ranches, which had a few thousand hectares of grazing, now occupy each 32,375 ha; with a planned animal capacity of 14,000 and 13,500 respectively. Since potential arable land is still available, there is every possibility of using the large land reserves more effectively through expansion of the existing state farm hectareage or the establishment of new ones.

2. Better use of modern farm techniques:

Despite the high prices of tractors (an agricultural tractor of the model 444 with 45 H.P. cost Shs 72,000 in 1978) most of state farms are highly mechanized (TFNC Table 7.1). The farm operations are mainly capital intensive. Livestock farms, both NAFCO[1] and DAFCO[2] farms use graded and cross-breeds. Heifers are being imported at exhorbitant prices. Despite their capital intensiveness, there is an indication in certain state farms that the prescribed production methods and techniques are properly followed. Most revealing example is the Mbarali Rice State Farm, which for more than four years is ranking one of the top in terms of average production yields (Read also Malecela 1978). In 1976, when Mbarali Rice State Farm started to feature prominently in terms of paddy production, the following comparable yields were reached (Table 15). The same farm is using irrigation for the purpose of production as well as better seeds (HYV), which have higher yields. The most popular varieties which are used at the farm are as shown on Table 16. This same farm is not doing impressively in terms of production output alone, but also in terms of costs. The costs incurred by Mbarali state farm for inputs as compared to other farms is as shown on Tables 17, 18 and 19.

Table 15: Mbarali State Farm Rice Yields as Compared to Other Average Values in 100 kg/ha.

	1961-1965	1976
Mbarali State Farm	19.5[1]	70.8
Tanzania	13.5	14.8
Africa	17.2	17.4
Developing Countries	16.2	19.7
Developed Countries	49.1	54.3
World	20.4	24.3

1 = 1965/66: Source: NAFCO, Historia fupi ya Mbarali, Mbarali 3.5. (unpublished); FAO: Production Year Book, 1976, Rome 1977, Vol.30, pp 92-118.

Table 16: Area cultivated and yields of rice in Mbarali State Farm 1976/77.

Type	Yield 100 kg/ha	Cultivated area in ha.
IRRI - 579	88.7	828.6
IRRI - 790	55.4	504.4
Surinam Awini	86.1	91.7
IRRI - 8	43.2	206.8
Lindi Safari	64.3	17.0
Taiwan 14	89.7	31.1
Kilombero	79.4	27.1
Experimental seeds	50.0	1.0
Average yield/type as well as total area cultivated:	69.6	1707.7

Table 17: Cost units as a percentage of total costs in four state farms 1976/77.

State Farm	Total costs 1000 Sh.	Seeds and Feed	Agro-chemi-cal	Fuel	Machi-nery	Labour costs
Mbarali Rice Farm	4695.2	2.5	24.1	7.0	9.5	56.9
Uyole Agric. Centre	1931.0	38.7	15.6	2.3	23.3	20.0[1]
University Farm	5088.8	47.7	16.6	5.1	-	30.6
Kilangala Rice Farm	1716.6	5.2	34.1	12.9	13.7	34.1

1 = Salaries of expatriates not included.

Table 18: Costs of fertilizer in four state farms 1975/76 - 1976/77.

State Farm	Harvested area in ha.		Fertilizer costs per ha. in Shs.	
	1975/76	1976/77	1975/76	1976/77
Uyole Agric. Centre	583.0	643.0	961.00	357.70
Mbarali Rice Farm[1]	1606.6	1647.1	344.80	672.10
University Farm	38000.0	1630.0	391.10	149.10
Kilangali Rice Farm	291.0	286.0	343.65	139.90

1 = 1975 and 1976 Calendar years.

Table 19: Relation between farm incomes and labour costs 1976/77

State Farm	Farm income in 1000 Sh.	Farm income per 100 Sh labour costs	Labour costs per 100 Sh. farm income
Uyole Agric. Centre	3041.5	786	12.73
University Farm	4918.9	316	31.65
Mbarali Rice Farm (1876)	7708.5	289	34.60
Kilangali Rice Farm	433.1	72	138.90

One of the aspects of interest to note in Table 17 is the high percentage of labour costs, as compared to other costs. The results of high costs of fertilizer which appear in Mbarali and Uyole reflect themselves in the good farm yield (Table 18). Despite of good farm results in some state farms there are those, which are faced with economic problems. For instances Kilangali farm earned Shs. 77.00 for every 100.00 Shs spent for paying the employee. The government had to extend subsidy in order to make the farm continue with its production.

Production costs of small-holders showed, that Shs. 723 and Shs 480 were required to produce kg. 850/ha and kg 400/ha of maize and paddy respectively. These results show clearly the advantages of modern farming technologies as compared to conventional.

A research conducted in the livestock state farms, showed that out of 10 dairy farms, eight farms had an average milk production per cow and year of more than 1000 but less than 1500 kg. Five farms had an average of between 1500 and 2000 per cow per year, and one farm (Kitulo Dairy Farm) recorded 3965 kg per cow per year. Good results have also been recorded in Uyole Agricultural Centre, where milk output increased from 1115 kg 1973/74 over 2343 kg 1975/76 to 2887 kg 1976/77. Top performance in this farm has recorded 5000 kg per cow per year.

There is every hope, that state farms if well managed organized and supported, can contribute to the economy more than they do now.

3. Increase of employment opportunities

State farms are an additional source of employment to both qualified and non-qualified persons. The sisal plantations are the largest single employers because of the nature of work which exists in the plantations.

It employs about 20% of the total estate labour force. In the period between 1970 and 1976, the government sisal plantations employed between 22007 and 20193 permanent workers respectively, a decline of about 8.2%. The number of employees per plantation were approximately 294 and 367 respectively. However the total number of workers (permanent plus season) increased by 2.3% i.e. from 26632 in 1970 to 27240 workers in 1976. Correspondingly, the employment opportunity also offers an increase of incomes to the rural population. When the minimum wages were increased to Shs 380.00 in 1976; wages in the sisal plantations also increased from Shs 140.00 to Shs 315.00 (refer Tanzania Sisal Authority 1977). Wages for the seasonal labourers increased almost two-fold, from Shs 6.30 to Shs 12.10 per day.

Other state farms employ much less people because most of the farm operations are mechanized. For instance in 1977, 18 NAFCO farms with an average hectareage of 24889 ha employed 1820 workers. During the same year, the livestock state farms also employed less than 2000 workers. The low level of employment in the livestock farms is because of the extensive nature of rearing the animals (1 wage earner looks after 150 cattle).

With the increase and expansion of state farms and the establishment of more agro-industrial enterprises more employment opportunities are likely to increase. This will help in using better, the available rural labour force and in the gradual absorption of the excess rural labour force into productive economic activities.

4. Better opportunities to agricultural planning

In a predominantly peasant production, agricultural planning is more of an estimate than actual planning itself. Since to have actual plan demands the knowledge of knowing the producer and the produced, and the ability to control and check production. In other words it is at the moment possible, for instance in the 55 (1976) government sisal plantations, to put a target of production, control or influence both production and distribution. It is also possible to check and question on the set targets. The same can apply to the 23 NAFCO farms (1980), 31 livestock farms (1977) and other similar government farms, which are under the control of various public institutions.

It is anticipated, that state farms also give light to some of the basic problems of farm management common in small-holder production.

5. Development of attractive farm work

Unlike in the villages, where more than half of the work force is over 35 years, research findings conducted in the state farms indicate the opposite. Apart from the young age structure about 89% of the workers in eight state farms (331 workers per farm), 1977, could read and write. At least every state farm had a diploma-holder or a University graduate. Kitulo dairy farm with 7 and Uyole Agricultural Centre with 10 topped in the list of having diplomas and University graduates in the eight state farms.

The work in the farms (except sisal cutting which is compensated by a better pay and bonus) is less odious, pays relatively well and is interesting. Surveys conducted in state farms in 1974/75 indicated, that every farms had a minimum of 3 tractors (min H.P. 50) and 3 combine harvesters. Capital intensive farms like Mbarali, had over 20 tractors and 18 combine harvesters. This makes the work particularly more interesting and attractive to the youth and as an educational impact to the neighbouring villages.

6. Basic issues of concern and conclusion for further state farm development in Tanzania

Although the information given on state farms is incomplete because of difficulty in getting information, still there are basic problems, which researchers have identified. The response of the relevant institutions to the problems listed will help greatly, in making the state farms contribute more to the nation. Issues of immediate importance are:

- Possibilities of expanding state farms and their regional distribution have to be examined
- Appointment of qualified farm managers professionals, and training of farm personnel
- Standardized methods of farm management and planning, have to be introduced
- Efficiency and profitability (cost effectiveness) of production has to be increased
- More effective methods of financing state farms have to be introduced
- State farm work-force and personnel, needs the minimum education, if higher productivity is to maintained. Findings indicate that most of the farms with better farm yields, have a high percentage of literacy e.g. Mbarali, Kitulo, Uyole and University farm 1976/77
- Relation between state farms and villages has to be encouraged.

The available large land reserves allow and encourage the increase of area cultivated, both in the peasantry sector, as well as the expansion of and establishment of more state farms.

The increase and guarantee of agricultural production is a societal and economic problem of development, which confronts Tanzania. The aim of Tanzanian agricultural policy is to eliminate and replace the agricultural backwardness through modern agriculture. This modern agriculture should be able to produce enough for food, for industrial raw materials and for export.

In this connection on state farm development, which will be well planned, organized and managed will not do less to the nation.

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PARASTATAL DEVELOPMENT AGENCIES AND THEIR RELATIONSHIP WITH THE PRIVATE SECTOR

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INTRODUCTION

In underdeveloped countries, where there is a phenomenal dearth of capital, technical know how and entrepreneurial ability, development corporations are expected to fill a big gap. Mobilization of domestic financial resources, either to supplant or to supplement external financial assistance where it is available, has assumed a central role in development planning. Development corporations, and indeed other financial institutions, are being increasingly utilized to channel such resources to economic sectors considered essential for growth and social equity.

In Kenya, the Industrial Development Council (IDC) (a forerunner of the present Industrial & Commercial Development Corporation) was set up under Ordinance 63 of 1954. The IDC was designed to facilitate the industrial and economic development of the colony by initiating, assisting or expanding industrial, commercial and other undertakings in the colony. (1) When its activities extended into the commercial sector on a significant scale. The IDC changed its name to Industrial and Commercial Development Corporation (ICDC) in 1967. Basically the activities of ICDC were not different from those of IDC: By equity participation, the extension of medium and long-term loans, and the establishment of its own subsidiaries, the ICDC was to encourage industrialization in Kenya relying on loans and grants from government and loans from foreign governments and institutions.

The Development Finance Company of Kenya (DFCK) was established in 1963 with 25% equity participation by the government through the ICDC. Other shareholders are; development corporations in Great Britain, West Germany, and Holland. The activities of the DFCK have been directed at attracting overseas capital and entrepreneurship through its facilities for setting up joint ventures with foreign investors and making loans at low interest rates to potential and existing entrepreneurs. (2) The role of the DFCK was defined in the Development plan (1966-70) as follows:

> ....to stimulate the flow of private investment by providing loans and share capital to fill marginal gaps in private project finance. (p.81)

In 1973, the ICDC set up its subsidiary, the Industrial Development Bank (IDB). The IDB was allocated the task of supplying finance to industrial projects only in excess of £50,000 with the emphasis upon attracting foreign enterprise to Kenya. The three parastatals have become important vehicles through which the government carries out her investment and industrialization policy. By 1978, the three parastatals had invested KShs 470 million in equity capital in 85 firms. The purpose of this paper is to evaluate the performance of these firms on the basis of the criteria which we shall define below. The paper is divided into three parts: Part I examines regulations and incentives affecting industrialization, and the role of state finance capital in industrialization. Part II outlines our method of analysis and also discusses the sources of data and realibility. In part III we present our results and make some conclusions.

PART I

Since 1963, emphasis has repeatedly been placed in the development plans upon achieving an ambitious rate of growth of industrial output. Investment incentives and regulations have been introduced to ensure rapid industrialization via the import-substitution strategy. The government's investment policy is clearly spelt out in the Development Plan 1966 - 70, (3)

> The government's policy towards investment and industrialization is therefore basically positive and non-restrictive, characterized by encouragement and support where needed, in order to secure a maximum rate of economic growth and the structure and location of industry which will benefit the country. (p. 235).

Kenya's industrial performance over the last fifteen years has been impressive. Real product grew at an annual rate of 8.9% over the period 1966-72. In the subsequent quinquennium, despite a severe Opec induced recession in 1974-75 and its aftermath of continuing inflation, output advanced at an average annual rate of 10.5% or about twice that of GDP.* The performance and the characteristics of the manufacturing sector can be partly attributed to the country's political stability, partly to the attractive investment incentives and finally to high levels of protection to commercial firms.

The government chose to rely heavily upon inflows of foreign capital, entrepreneurship and technology to generate vigorous industrial growth. This was necessary because of the existence of a domestic resource gap which constrained the achievement of target growth rates.[5] Local entepreneurs were few and technical knowledge about many lines of production was incomplete or non-existent. The atmosphere was therefore quite favourable to the foreign investor. The foreign investor has not only been willing to bring in capital but in most cases has gone into a joint venture with the government. Now why would a foreign investor be willing to go into a joint venture?

Theoretically, it may be possible for the foreign entrepreneur to reduce the risks and costs by sharing them with investors in the host economy. For example by raising the finance for the investment from the host economy's capital markets, he may be able to reduce the opportunity cost of the capital and the risk of an exchange rate fluctuation undermining the value of his investment through nationalisation without compensation. Entering a joint venture with a participant from the host economy's private or public sector can offer similar advantages. (6) The government, for its part, has given the following reasons for entering joint ventures:

(a) the creation of a local entrepreneurial class,
(b) the generation or conservation of foreign exchange,
(c) the provision of employment
(d) utilization of locally available raw materials,
(e) dispersion of industries and diversification of the industrial structure (7)

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* It must be recognized that these growth rates reflect the growth in the value of production in Kenyan prices. Where these prices have risen, as a result of protection, to above world prices the economic value of the increases is accordingly overstated. There is evidence that protection-induced price rises have been more marked in the manufacturing sector so that intersectoral GDP comparison must also be treated with caution.

It is in this light that the role and activities of ICDC, IDB and DFC must be seen. To what extent have the parastatals succeded in the attainment of the above stated goals? What are the characteristics of the firms in which the parastatals participate financially? Should these firms operate differently from other firms in the industry? If so do they operate differently?

Several studies / Vinnai (1973), Egglin (1978) / have shown that, in terms of attainment of developmental objectives, the performance of parastatals has been less than encouraging. Vinnai (8) has said of the DFCK,

> ....by December 1972, total investment and commitments of £4,595,000 had been made in 41 projects, all of them industrial ventures or hotels. Almost all of these investments were made in three groups of firms, subsidiaries of large international firms, joint projects of several foreign partners in cooperation with local groups, and local ex-colonial firms.

Vinnai notes further that placing the investment minimum at KShs 400,000 while preferring limited liability companies, the DFCK effectively shuts out the few emerging African enterprises from its financing activities. Egglin (1978) however has gone further and stated that the DFCK has acted as a "validating agency", in the sense that foreign and local entrepreneurs have collaborated with it as a way of courting official favour and in the hope of safeguarding their position vis-a-vis the government. Time does not allow us to discuss each individual parastatal and indeed the subject transcends the scope of this paper. Suffice it to say that the ICDC and IDB cannot at all be exonerated from the foregoing.

PART II

ANALYTICAL FRAMEWORK

Ideally, in comparing the performance of parastatal enterprices defined in this study as companies with parastatal equity and/or loan investment, and other firms which for the sake of comparison we shall refer to as private firms, it is best to use data for firms operating in thesame industry producing an identical or at least similar products. Unfortunately our data limits us to only a handful of firms in six industries. The number of observations in individual industries was too small to permit running statistical tests of significance to discern whether or not public firms perform differently from private firms.

The analytical framework we have adopted, follows closely that of Gershenberg and Ryan (1978) (9) which they used in comparing the performance of transnational firms with indigenous firms. In our study, five performance and/or operational characteristics were defined for each firm in each industry for which we had comparable data. The absolute size of firm is represented by the number of workers employed. Profit as a percentage of value added is our measure of profitability. Average wages and salaries are included to give an indication of skill intensity. Value added per worker and non-wage value added per worker allows us to analyze factor intensity. This deserves comment.

Due to the lack of reliable data and defects of the capital labour ratio, Kilby (1979) (10) has suggested the use of a technique which he refers to as the "payment for factor services approach". Within this framework production inputs are segregated into three groups: fixed and circulating physical capital, human capital and raw unskilled labour. These inputs are measured in terms of their contribution to value added per worker. Thus non-wage value added per employee is the payment for services of material capital (rent, interest, depreciation) per worker: if this figure is high it suggests that a high ratio of capital inputs are being utilized per worker. If the wage and salary per worker component is large, it suggests that intensive use is being made of human capital in the form of technical skills and managerial inputs. If neither the wage nor the non-wage component is low-(that is total value added is low per worker) then productive inputs are primarily those of unskilled labour. The results of this exercise are given in Table 1 of the Appendix.

DATA SOURCE

The data used in this paper is from a survey carried out by the Central Bureau of Statistics. This was done by sending out questionnaires to individual firms employing at least 5 people. The information in the questionnaires is, of course, confidential and for this reason the names of the firms are withheld. Some of the data is certainly not reliable. The errors in data may have arisen from the intentional or unintentional provision of mis-information by respondents or as a result of clerical error in various stages of processing in the Central Bureau of Statistics.

We also went through the Industrial Protection Committee files to see the concessions the firms received from the government. Finally, we had a list of all exporting firms from Kenya External Trade Authority.

RESULTS

Employment (11)

The picture that emerges from Table 1 of the Appendix is that public firms are large in terms of numbers employed. Starting with the canned vegetable, fruit, fish and oils industry, we see that all parastatal client enterprises employed a number higher than the sectoral average. Twenty Two percent of the firms in this industry employed more than 100 people. These firms contributed 80.4% of total employment in the industry.

In the electrical machinery industry, 100% of the parastatal firms employed more than 100 people. On the other hand, the private firms not only employed less than the sectoral average but also less than a hundred people. In this industry, firms employing more than 100 people made for 92.5% of employment. The picture is not very different in the non-electrical machinery industry. The only parastatal client firm was employing over 4 times the sectoral average, in an industry where firms employing over 100 people make only 1% of the total number of firms in the industry. In fact, it is likely that the parastatal firm is the only one that employs more than 100. Turning to the metal products industry, the Table shows that 36% of all the firms have parastatal participation. In this industry, firms employing over 100 people, contribute 76.1% of total employment. Eighty nine percent of all parastatal firms in this industry employed 100 people or more. It is also noteworthy that firms employing more than 100 people made 15.8% of the total number of firms in the metal industry.

In the paper and paper products industry we again see that parastatal firms are bigger than private firms. Here 21% of the firms employ 100 people or more. These firms contribute 78.9% of total employment in the industry. From our sample, 100% of parastatal firms employed more than 100 people. The picture remains the same for the texile industry. In this industry roughly 93% of total employment is attributed to the class of firms that employs more than 100 people. These firms made up only 38% of total firms in the industry. All parastatal firms belonged to this class.

A cross-sectional analysis of all firms was carried out. It was clear that the proportion of firms with parastatal participation varied directly with the number of people employed. (see Table 1)

Table 1. Percentage of firms with Government Participation by Firm Size

Number Employed	No. of Firms	% of Firms With Govt. Part.
5 - 19	1	0
20 - 99	50	10
100 - 199	37	41
200 - 499	28	43
Over 500	18	61

It is clear then that there is a clear relationship between firm size and the probability of government participation. It is also noteworthy that out of the firms that employ less than a hundred people, the parastatals participated in only 10% of them.

Average Wages and Salaries

The comparative performance in all industries is undeterminate. For example, in the canned vegetable, fish and oils industry, a parastatal client firm is below the sectoral average and the other is above the sectoral average while one is just below. The picture is more or less the same in all the other industries. In three industries, a parastatal firm had the highest average wage while in two industries a parastatal firm had the lowest average wage ratio.

Factor Intensity

Looking at the canned vegetable, fish and oils industry, we see that one of the parastatal firms has the highest value for both non-wage and total value added per worker. The other parastatal firm has values lower than the sector averages in both cases. Turning to the private firms, all of them have lower than sector average values for non-wage value added per worker. It seems then, on the whole parastatal firms are more capital intensive than other firms.

The picture is clearer in the electrical machinery industry where we see that all parastatal firms have values for value added and non-wage value added per worker higher than the sector average. In the non-electrical machinery industry it is clear that the parastatal firm is far more capital intensive than the private firm.

In the metal products industry the picture is not so clear. Two of the parastatal firms had the lowest averages in both the value added per worker and non-wage value added per worker. Two of the private firms, on the other hand, had the highest values. In between the two extremes parastatal firms and private firms seen to be more or less evenly scattered.

In the paper and paper products industry as well as the textile industry the parastatal firms seen to be more capital intensive than the other firms. In both industries the public firms have the highest averages in both value added per worker and non-wage value added per worker.

Protection

Table II shows the percentage of parastatal firms that are protected by quotas, bans and No Objection Certificates (NOCs). Bans and NOCs represented the must powerful protective devices in that they protect the firm from all foreign competition, regardless of prices.

Table II. Parastatal Firms & Protection.

Protection	No. of Firms	Public Firms as % of No. of firms
quota	35	17
ban	84	17
Noc	23	39

Source: Industrial Protection Committee files.

From the table it is not clear whether parastatal firms are more protected than private firms. However, it is noteworthy that of the parastatal firms that received protection, 49% of them had the authority to issue NOCs.

Profitability

The evidence from our study does not show whether parastatal firms were any more profitable than private firms. However, none of the parastatal firms indicated making a loss.

CONCLUDING REMARKS

Lack of adequate data has made it impossible to run statistical tests of significance. Any conclusions from the study, therefore, can only be impressionistic. In discussing the performance of parastatal client firms vis-a-vis private firms and how the parastatal-client firm-government relationship affects that performance, the results of our study must be implemented with the experience and information we received through interviews with parastatal and government officials.

This study suggests that the parastatal investment companies have done little or nothing to push the manufacturing sector in the directions specified by the policy statements of government. Rather, they appear to have aided and abetted some of the least appropriate features of the Kenyan industrial structure. The parastatal client firms tend to be large, capital intensive, import intensive and almost exclusively oriented toward a protected, over priced local market. The parastatals have concerned themselves almost exclusively with the financial well-being of their client firms.

Elsewhere in the paper, we have stated that there is a strong policy pressure for local participation in foreign-owned manufacturing firms in Kenya, the concern being the development of indigenous entrepreneurship and business skill as well as for local control. For large number of foreign firms, local parastatal finance is a painless and antiseptic way of responding to such pressure. By making available relatively large sums as both equity and loan finance, by a record of minimal interference in the working of the firm, and by substantially reducing the firm's risk by providing vital contacts and a powerful ally in the firm's negotiations with Government, parastatal firms make attractive investment partners. This is especially so in the tropical import substituting lines of production where the firm's profitability is dependent on concessions and interventions from Government. Whether this participation increases indigenous entrepreneurship, business skill or even management control is a separate question.

A recent survey of U.S. firms in Kenya, part of an annual series by U.S. Embassy staff, included return from 16 manufacturing firms. Three quarters of these indicated local financial participation, almost entirely from Kenya parastatals. All but one of these firms produce entirely for the Kenyan and, to a far lesser extent, the regional market. Virtually all of them operate behind protection from competing imports in the form of tariff barriers, quantitative restrictions (generally a complete ban on competing imports) or both. Eighty percent of the inputs of this sample of firms are imported and this figure would be higher but for the food processing, mining and ranching firms. In general the expansion plans of these firms are limited, the main reason being the limited local market and a complete lack of concern, for exports.

We would like to point out that this series of characteristics has nothing to do with nationality; it is typical of the sector's import substitution bias, its heavy dependence on imports and its slow growth. These characteristics are a consequence of the range of trade and exchange rate policies affecting manufacturing firms and it would be unrealistic to hope that they could be changed by investment policies and agencies are an integral part of a policy regime that allows very considerable profits to firms where economic contribution may be low or even negative. Firms, in these circumstances, are quick to perceive their optimal strategy as involving Government financially as much as possible and then using that involvement to extract further concessions which then have the appearance of being in the Government's interest. When Government or a parastatal has substential holdings in a commercial firms it is not easy for government officials to differentiate between the interests of that firm on the one hand, in seeking rents and transfers to itself, and the interests of the economy on the other where such rents and transfers may not represent real economic benefits.

Financial participation by government (or parastatal) has in Kenya, become the best guarantee obtainable that a firm will make high and secure financial profits regardless of its economic efficiency or its international competitiveness. It is the key element for entry into what has been called the "corporate aristocracy" in Kenya. Membership of this aristocracy virtually ensures that the firm involved will be on the right side of the discriminatory series of measures that government uses to promote manufacturing activity.

These discriminatory measures tend to promote monopoly power in the favoured firms and to result in a rise of domestic prices (or, equivalently, a decline in the quality of domestic products). The measures tend, therefore to discriminate against the relatively poor and powerless individuals and sectors in the domestic economy. Since price increases can, however unevenly, be passed on by everyone except the exporter the discriminations are finally against exports. Their effects run counter, therefore, to the objective of improved income distribution or the objective of self-sustaining industrial growth.

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APPENDIX

Table 1:

INDUSTRIES & FIRMS	No. of Workers	Profit as % of Value Added	Annual Wages & Salaries PER Worker ('000 KShs)	Value-Added per Worker ('000KShs)	Non-Wage Value Added per Worker
CANNED VEGETABLE, FISH,OILS & FATS					
Joint Venture	110	11.1	16.8	30	13.2
Joint Venture	184	65.4	5.19	15.8	10.6
Private Firm	1102	8.0	6.13	12.7	6.54
Private Firm	166	11.9	16.4	23.3	6.96
Private Firm	63	Loss	9.78	17.4	7.65
Sector Averages	107		6.7	18.2	11.5
ELECTRICAL MACHINERY					
Joint Venture	289	37.8	16.1	32.1	15.9
Joint Venture	147	76.4	10.7	70.2	59.5
Private Firm	24	83.2	7.38	46.2	38.8
Private Firm	35	-	14.1	19.2	5.01
Sector Average	242		10.9	18.0	7.1
NON-ELECTRICAL MACHINERY					
Joint Venture	102	74.1	22.08	137.5	115
Private Firm	39	12.4	26.4	35.1	8.71
Private Firm	56	44.1	17.8	34.8	17.3
Sector Average	23		8.4	14.2	5.7
METAL PRODUCTS					
Joint Venture	160		8.02	10.0	1.96
Joint Venture	143	45.5	1.0	11.0	6.91
Joint Venture	588	58.9	16.2	46.6	30.44
Joint Ventures	137	23.9	15.3	34.1	18.9
Joint Venture	184	47.2	16.0	43.9	27.9
Joint Venture	235	143.1	16.3	17.8	1.5
Joint Venture	53	29.1	18.2	34.2	16.0
Joint Venture	485	54.1	2.24	13.8	11.5
Private Firm	84	3.0	8.6	11.0	2.45
Private Firm	218	21.7	12.4	19.2	6.84
Private Firm	23	40.5	8.1	18.9	10.8
Private Firm	228	Loss	14.7	186.2	171.5
Private Firm	127	73.0	6.5	40.1	33.8
"	45	99.7	1.0	105.1	104.2
"	56	22.5	9.0	14.1	5.1
"	159	88.7	25.3	224.3	199
"	72	2.0	9.3	15.0	5.6
"	69	8.5	9.1	14.1	4.94
"	223	50.7	17.6	50.0	32.3
"	363	28.7	6.8	15.1	6.32
"	213	60.4	23.1	85.1	61.9
Joint Ventures	289	53.6	18.5	46.07	27.6
Private Firm	46	54.6	24.5	117.7	93.2
"	290	29.6	19.8	34.9	15.1
"	57	22.8	9.8	19.7	9.86
"	53	14.2	26.8	31.9	5.05
Sector Average	52		8.6	16.5	7.9

INDUSTRIES & FIRMS	No. of	Profit as % of Value Added	Annual Wages & Salaries ('000 KShs)	Value Added per Worker ('000 KShs)	Non-Wage Value Added
PAPER AND PRODUCTS					
Joint Venture	1,411	33.7	16.4	80.5	64.1
"	178	-	6.1	10.0	3.5
"	263	68.3	6.9	42.9	35.9
Private Firm	77	4.8	5.6	7.36	1.74
"	111	68.6	9.7	38.7	29.0
"	75	Loss	11.6	12.3	0.71
"	161	34.2	18.3	32.1	13.8
"	478	10.7	29.0	40.4	11.48
Sector Average	75		10.6	18.2	7.7
TEXTILES					
Joint Venture	232	14.0	8.9	98.2	89.2
"	422	-	9.1	-	-
"	694	11.4	6.9	13.9	6.50
"	796	8.8	8.5	13.8	5.24
"	685	43.1	9.4	16.5	7.11
Private Firm	53	19.5	12.5	18.4	5.88
Private Firm	160	57.0	7.4	19.7	12.3
"	503	Loss	.91	19.4	18.5
"	174	13.4	5.61	7.9	2.26
"	162	45.2	6.0	11.0	4.95
"	467	10.2	58.6	9.6	3.7
"	92	33.6	25.3	45.5	8.48
"	232	20.6	8.9	16.3	7.35
Sector Average	182		4.6	9.3	4.8

SOURCE: CENTRAL BUREAU OF STATISTICS
CONFIDENTIAL DATA.

PUBLIC ENTERPRISE AND FOREIGN CAPITAL IN KENYA: THE POLICY ENVIRONMENT.

By

David Wainaina Gachuki

Like in many other countries, public enterprise in Kenya is expected to play a major role in the economic development of the country. Public institutions have been set up in every conceivable economic field, for example manufacturing tourism, commerce, agriculture etc. The history of public enterprise in Kenya goes back to the colonial days when public institutions were set up to facilitate the development of the economy to suit the political ideals of the time. The function of public enterprise are, to a large extent dependant on the state. Its no wonder or contradiction then, that public enterprise is to be found in all nations of the world irrespective of their political and ideological foundations. However, the objectives for which they are set up are of marked difference depending on each states political philosophy. At times, the difference is more rhetoric than real. In some cases, the rhetoric is a design to cover up the reality and the difference with reality is thus pure hipocrisy while in other cases the difference is accounted for by failure to achieve the objectives set in the political rhetoric. Such failure may and usually does result from a combination of both internal and external factors. The organisation, operation and control of any public enterprise will be heavily influenced by the political atmosphere prevailing in any country. It is for this reason that we feel it is necessary to briefly set out Kenya's economic policy against which public enterprise should be evaluated.

It is axiomatic that public enterprise is contrasted to private enterprise. The latter is, in Kenya divided into two: local and foreign. Public enterprise in Kenya has been involved in economic areas largely dominated by private foreign enterprise. To a certain degree then, public enterprise in Kenya so far may be contrasted to private foreign enterprise operating in the country since there was little local private capital to be taken over by public enterprise.

Historically, Kenya has always had a soft point for private capital and did not change with independence. Prior to independence, the basic assumption of development policy was that, apart from modernisation of agriculture, the only pattern of economic expansion was through the infusion of foreign capital and skills for the creation of industrial and commercial sectors of the economy. This assumption has been continued albeit, it is now mainly limited to industrial strategy. Owing to fear by private foreign investors of a radical change in economic policy after independence, Kenya experienced a great deal of capital outflow. However, the expected changes in Kenya's policy towards private foreign investment did not come about. In fact, Kenya's reliance on private foreign investment increased and she became a staunch supporter of the same. Private foreign investors were encouraged and accorded extremely favourable treatment. The 1974-78 Development Plan states that:

> "The government is committed to a mixed economy of private and government enterprises in the manufacturing sector, however, heavy reliance will be placed on private enterprise, including investment from abroad. Foreign enterprise will be welcome and will be assured the possibility of adequate repatriation of profits."[1]

This assurance has been reiterated in the latest Development Plan.[2] Indeed, only recently the nation was told that it could not be independent without foreign investment.[3] The protection of private property local or foreign, is enshrined in the country's constitution.[4] Kenya's position on foreign investment is founded on her wider commitment to the institution of private enterprise. As long as Kenya keeps its present economic philosophy, the danger of nationalization will remain slim.

After independence, the global targets established for increased investment in industry were left to be implemented primarily by private enterprise, fostered by a government policy "characterized by encouragement and support where needed, in order to secure a maximum rate of economic growth and the structure and location of industry which will benefit the country most".[5] Under this policy, 86% of investment in manufacturing was

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1. Development Plan 1974-8 p.279
2. See Development Plan 179-83 p.332
3. See Daily Nation 17/10/80 p.1
4. See for example s.70
5. Development Plan 1966 - 70 pp.235-6.

was expected to come from the private sector. Thus public ownership was ruled out of independent government policy right from the beginning. The government argued and still largely argues that state ownership is not necessary to ensure that industry operated in the national interest and that increased state ownership might, to the contrary, have a detrimental effect on industrial development by (1) discouraging overseas private investment and government aid (2) by syphoning off public funds into compensation payments to investors whose investments are expropriated; and (3) by blunting the edge of the incentives for aspiring local capitalist entrepreneurs. Having weighed the pros and cons of nationalization, the Prime Minister announced to a group of Nairobi businessmen in 1964 that the government considered "that nationalization will not serve to advance the cause of African Socialism".[6] The government has changed once since then, but not the policy on nationalization. Indeed if anything, anti-nationalization sentiments have increased with the development of an entrenched and privileged local political and economic elite class that has found its interests in the development of intensive foreign investment the spillover from which they, being the privileged few, find the source of lucrative jobs and partnerships. It is amongst these that one finds incredible ostentation and extravaganza in living with an almost insatiable propensity to consume more and more of the luxury products from the western world. These are the main allies of foreign investors. As very junior partners of international capital, they render their unqualified support to it and as long as they hold the reigns of power nationalization is likely to remain just another vocabularly in the dictionary.

The blueprint of independent Kenya's economic development policy was embodied in a government white paper on African Socialism and its Application to Planning in Kenya.[7] In this document it is stated that if public control is necessary and if other less costly controls are ineffective nationalization must be undertaken regardless of the cost. It went on to

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5. Development Plan 1966 - 70 pp. 235-6
6. A. Saidmann "Comparative Industrial strategies in East Africa p. 91
7. Sessional Paper No. 10 of 1965

state the circumstances under which nationalization might take place despite the stated basic policy of non-nationalization. These are:

i. "when the assets in private hands threaten the security or undermine the integrity of the nation; or

ii. when productive resources are being wasted; or

iii. when the operation of an industry by private concerns has a serious detrimental effect on the public interest; and

iv. when other less costly means of control are not available or are not effective."

This policy has to the best of my knowledge, not changed to date.

The same policy in relation to nationalization has been applied to joint ventures. Public equity participation in projects in Kenya has not been specially utilized as an instrument for the development of the public sector. Such participation, resulting in parastatal organizations, is geared towards bringing about a broader base of local private control and ownership. As the economic blueprint stated, joint ventures are to be supported in four principal cases. These are:

i. "Where a project is profitable but risky and, therefore, private capital is not prepared to undertake the risk. In this case, government participation is to be used as a means of minimizing the risks involved;

ii. where a project may be only marginally profitable inself but may give rise to social benefits, such as employment or foreign exchange earnings that may make it desirable from a national point of view;

iii. where the project may require more capital than can be found by private domestic investors; and

iv. where public financial participation is required to establish public control over enterprises in which a strong public interest exist or to promote Kenyanizations."

In the past, joint ventures have been utilized primarily to bring in foreign capital. The philosophy that capital per se is the key to industrial development is now changing to a more realistic one. So, the government has finally adopted the view that foreign participation in joint ventures on an equity basis is only useful if the foreign investor also brings in skills, know-how, patent or patent rights, marketing organization or other benefits required by Kenya. Thus the 1974-78 Development Plan states that the joint ventures in which the government has participated with foreign investors will be continued, but adds that:

> "The inflow of capital is not generally the most important benefit to be achieved from such ventures. More valuable are technology, skills and techniques, which will enable Kenyan to staff and manage complex production processes, as well as experience and knowledge in the design and marketing of exports."[8]

This, it is submitted, is a policy consideration that should be strictly adhered to, but which has not been so far. If only capital were necessary, the government would do well by borrowing the required capital abroad which will leave a lot more control in its hands to shape the operational policies of a project in accordance with overall national development policy. The provision of equity by foreign investors should be seen as beneficial not so much for financial reasons, but rather as a means of tying the foreigner to the project in order to offer him stronger incentives to make it a success. There has not yet been any fixed policy on majority local shareholding in joint ventures.

The government has employed three agencies to promote industrial development; the Industrial and Development Corporation (ICDC), the Development Finance Company of Kenya (DFCK) and the Industrial Development Bank (IDB). It is these three agencies that act as government instruments for engaging in joint ventures or partial nationalization.

The policy behind these actions has been the desire to introduce public involvement in strategic industries. The reasons behind this desire are not clear, particularly in view of the fact that even the new partnerships are to operate on "sound commercial principles." It is doubtful whether government participation gives it much more control to enable it to operate the business in any other way but as profit making operations. In the case of the banks, where local elites quickly took control of high management positions, there has been a significant shift in credit policy in favour of African borrowers. The African borrowers had been discriminated by the banks in their lending policy during the colonial days and in the early years after independence. It is submitted that the shift in the banks' lending policies was inevitable with or without government participation. It is not feasible that the banks could have possibly ignored the local elites' demands for

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8. Development Plan 1974-8p. 284

credits that would enable them to enjoy their privileged economic positions in the country. These elites control the political reigns of the state and the cry for outright nationalization of the banks may have been their immediate reaction. Nevertheless, the participation did accelerate the rate in change of policy. Government participation in economic activities is to re-inforce the private - enterprise system rather than diminishing its presence. The private - enterprise system in Kenya is overwhelmingly foreign owned, particularly in the manufacturing sector, and as Professor Leys puts it, this mild government participation only "represented a new dimension in the evolution of periphery capitalism, not a departure from it".[9]

Indeed, public enterprise in Kenya was initially conceived not to take control of the economy, but, inter alia, to help in the Africanisation policy. The government's Africanization policy can be classified into two categories. The first is the Africanization of equity ownership and second, that of managerial positions in firms. In theory, the policy is not one of Africanization, but of Kenyanization. However, in practice, it is the Africans that need the upgrading economically and that is where the government has concentrated its efforts. As one notable politician put it, "the predominance of non-Kenyans in the ownership, management and control of private enterprise is one of the most glaring defects of the private sector in Kenya. No country can accept the continuance of this kind." The solution to this 'glaring: defect' was Kenyanization, which must of necessity lay considerable emphasis on Africanization for "to turn a blind eye to the racial imbalance in the economy would be tantamount to inviting racial disharmony and conflicts in the future".[12]

Initially, official Africanization policy laid emphasis on inducing large foreign companies that were operated as private companies to "go public", and thus enable Kenyans to buy shares in such firms. This policy was reinforced by the commercial and industrial licensing system. For instance, the Transport Licensing Board has threatened not to approve the

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9. Colin Leys, Underdevelopment in Kenya: The Political Economy of Neo-Colonialism University of California Press, Berkeley and Los Angeles, 1974. p. 135

12. T.J. Mboya, the Role of The Private Sector in Kenyan National Development in Private Enterprise And The East African Company Ed. P.A. Thomas, T.P.H. Dar-es-Salaam, 1969. p.203

annual renewal of licences unless more than 50% of a company's equity was sold to the public. East African Road Services, the largest bus company, complied with this condition by issuing 25% of its shares to the public in 1969 and a further 32.5% in 1971.[13] Other companies decided to do the same and owing to an existing state of liquidity in the country, the issues were heavily oversubscribed. The immediate effects of this policy of encouraging companies to "go public' were two-fold; one, it enabled foreign companies to disinvest by selling old shares and repatriating the proceeds and, two, it did enlarge Asians' shareholding, rather than African's since the former had the savings to buy the shares, something which the Africans did not have.

These effects were illustrated most clearly in the case of East African Packaging Industries, a subsidiary of Canadian Overseas Packaging Industries.[14] The company offered K.£200,000 worth of shares to the public in April 1971. The previously issued capital in the prospectus was K.£.100,000 down to March 1971, on which dividend had been paid to the parent company at the rate of 25% 25%, 100%. 198.5% and 100% in the years 1966-70, respectively, i.e. just under K.£.450,000 in all. On March,23,1971 the issued share capital was increased to K.£.600,000 by giving the parent company a bonus issue of five new shares for each existing one, paid for out of accumulated profits and from the capital reserve 'arising from the valuation of the company's properties'. On March 24, 1971 a special 50% dividend was declared payable to the 'shareholders on the register at that date'. The parent company thus received a further K.£.3000,000 and stood in line to receive three-quarters of all subsequent dividends when the share issue of K.£.200,000 worth of new shares had been issued. The new shares were issued as K.£.430,000 of new capital. The dividend yield on the new shares at the issue price would, the director thought, be no less than 8.6%, i.e. about 18% to the parent company which had got its K.£.600,000 worth of shares at par! At this point the company was informed by the Ministry of Finance that its shares issue "did not have government support". However, the transaction was absolutely legal under Kenyan law and the issue was eventually allowed to go ahead.

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13. Colin Leys, Op cit. at p.128

14. Ibid. at p. 120-30 from where this account is taken.

The negative effects of the move to go public as illustrated by the above account were obvious even to the government which set up a Capital Issues Committee which has to supervise all capital issues and capitalization of reserves in companies having a substantial foreign interest. The impact of the public's share purchase and that by the government in foreign owned enterprise was clearly shown in the 1970-71 balance-of-payment account: K.£.7 million flowed out, reducing net private foreign investment from over K.£.11 million in 1970 to K.£.5 million in 1971. The government fell back on its 1965 policy statement which had stated that the government's efforts would be directed "towards establishing Africans in a firm position in the monetary sector by ensuring that a large share of planned new expansion is African owned and managed".[15]

Since the Africans had little or no capital to buy into the new planned expansion, government aid was required. The main instruments for executing this policy were the Industrial and Commercial Development Corporation (ICDC) and the Development Finance Company of Kenya. These two are public bodies to facilitate public participation in economic activities. The ICDC represents the single most important statutory body in the government's efforts to Africanize the commercial and industrial sector in the country. It participates in joint ventures with foreign investors by subscribing for and holding shares with the aim of transferring them to Africans whenever they have the necessary capital to acquire them and also by provision of loan capital. The loans, investments and any kind of participation by these institutions are directed towards the African ownership of business rather than towards public control of the means of production. Thus the dominant theme of public enterprise in Kenya is Africanization. ICDC stated in its 1970-71 Annual Report that:

> "... the ICDC relentlessly pursued its promotional role as an effective mechanism for the implementation of the policy of Africanization in trade and industry in furtherance of government policy."16

This it did while still pursuing its open door policy aimed at encouraging the investment of foreign capital in the development of the resources of the country. Accordingly ICDC has established a subsidiary, the ICDC Investment Company, to enable citizens to have a stake in ownership of existing profitable

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15. Sessional Paper No.10 of 1965 p.26.

16. P. Nowrojee, "Public Enterprise And Co-operatives in Kenya and Tanzania." (1972) E.A.L.R. P. 144

companies thereby increasing the degree of local ownership in such enterprises. It is significant to note here that the effect of such a policy is not African participation in domestic enterprise, but their participation in foreign enterprise. Incidentally, the public shareholding of the ICDC Investment Company has been described as "a roll-call of the Kikuyu middleclass". These happen to hold the political and economic power in the country. This belies a former minister's rationalisation of the policy of "going public", that "the public company is regarded in Kenya as a particularly desirable form of private ownership because it does permit a widespread distribution of ownership".[17] This distribution was only among the elites who constitute less than 1% of the population.

In addition to such financial institutions providing capital to local elites, the government has used other public and statutory corporations as conduits for government assistance in the establishment of Africanized domestic private enterprise. Examples are, the National Construction Corporation which was originally set up as a company under the Companies Act and changed into a statutory corporation in 1972. Its functions were outlined by the Assistant Minister for Works in the National Assembly as being:

> "To help African contractors to take up more challenging contracts being undertaken currently by foreign companies. African contractors had been under pressure because of insufficient funds to keep them at par with competitive contractors from overseas. The government was anxious to see that Africans fully participated in the construction and contracting industry."18

what this means in practice is that the construction contracts of the Ministry of Works will be given to the Corporation unless the contract demands more technology or facilities in general than the Corporation can muster. In this sense, the business has been Africanized via the medium of a statutory corporation. Like the case of the insurance business, no assets have been taken over. The other public corporation is the Kenya National Trading Corporation (KNTC). This is a wholly owned subsidiary of the ICDC set up under the companies Act and falls under the supervision

17. Mboya op.cit.at p.200

18. Nowrojee,op. cit.at p.145

of the Ministry of Commerce and Industry. Its functions include promotion of citizen participation in wholesale and retail distribution in the import trade. The government has sought to break non-citizen, non-African control of the wholesale business by granting exclusive import licences to KNTC. The corporation then appoints its own agents, who, needless to say, are mainly Africans. In this manner, the KNTC acts as a channel by which government controls not the commodity and its supply, but the Africanization of distribution outlets and the import and wholesale business.

The government's nationalization policy in Kenya might as well have been formulated by the foreign investors. The circumstances under which nationalization may be undertaken are narrowly circumscribed, Given the government's willingness to even over-compensate, its ability to nationalize any significant sector of the economy is strictly constrained by the nation's lack of finances to meet these costs. In its attempts to purchase stakes in foreign owned enterprises the government is reluctant to change the investment pattern of the foreign investors, preferring, instead, to let them choose their field. Such participation by the government in foreign enterprise is, contrary to a common general misconception, viewed by many investors as the best insurance policy against political risks and industrial disputes. The government stake in an enterprise gives it a vested interest in the success of the enterprise. Commenting on the Zambian nationalization of the copper industry in 1969, the Economist wrote:

> "The shrewdest businessmen in that part of the world (Africa) have argued for some time that 40% stake in a business whose success is underwritten by government participation may be more valuable than 100% of a concern exposed to all the winds that blow. Companies that have anticipated the direction of events and invited the government into partnership have no reason to regret Zambian investment."[19]

Government finance in Kenya is a concession firms often seek in their entry negotiations ~~which~~ with the government. This is basically the beginning of government participation. From the foreign investor's point of view such participation lessens the capital commitment the investor must make. It institutionalizes special access for an enterprise to ease problems such as obtaining work permits, exemption from local borrowing restrictions etc.

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19. The Economist August, 23, 1969 p.56

Other firms view government participation as a guarantee that they will receive the other concessions promised on entry such as tariff protection, import restriction, exemption from duty on imported inputs, etc. This is so because the government will have a financial interest in the success of the firm. One subsidiary of a foreign company was noted as having insisted on a government loan for a new factory;

> "to ensure that we get absolute protection, because the day that we see anything else coming in, we are ready to hammer on the government's door and say "look, it's your loan, you have got to protect it!"20

Used in this manner, government participation means that the investors hold it as a hostage against the government to extract concessions to certain privileges.

State shareholding in foreign enterprises, is thus a valuable channel to foreign investment economic benefit rather than unwarranted government interference. This is particularly profitable in view of the fact that foreign investors have the ability to repatriate surplus from subsidiaries through channels other than dividends (such as transfer pricing and service payments).

Without engaging in a detailed discussion of the pros and cons of nationalization, I would like to give two examples of business that should be nationally run. These are the banking and insurance business. There are three reasons for making this recommendation. First, is that these businesses are entirely dependent on the domestic market and therefore there would be little change in the market pattern. One of the main objections to nationalization is that it scares away foreign investors. In banking and insurance, there would be no loss if, foreign bankers or insurers stayed away. Virtually the same amount of business will be available to nationally run banks and insurance companies. This is an area where the investors marketing experience or facilities outside Kenya, have little effect on the volume of business. Second, is that these two areas require very little advanced technology which is an industrial secret available to foreign investors only. There is little patented technology or trademarks in banking and insurance. The main constraint to nationalizing any industry is lack of relevant manpower. It has been successfully shown by Tanzania's experience in nationalizing the banking and insurance business that foreign participation is not essential. Also the government owned National Bank of Kenya is ample proof that the nation is capable

20. Steven Langdom, "Multinational Corporations in the Political Economy of Kenya". Ph.D. Thesis, University of Sussex p. 134

of running its own banks and insurance companies. Finally, and most important is the fact that these two business institutions are extremely well placed for mobilizing the nation's savings for investment in productive areas. Banking and insurance are not productive industries, they are rather service industries used to channel the nation's investible surplus to other business operations. Control of such an important channel of investment financing will give the state a substantial weapon to channel the nation's surplus to well planned (hopefully!) investment in areas designed to bring about economic development as opposed to mere economic growth. Indeed ownership of these institutions is controlled in what are apparently the leading champions of free enterprise in the world which includes such countries as the U.S.A. and Canada. As it has been pointed out by a Working Party in a study of the pattern of industrial control in Kenya.[21] "In the last resort control of commerce and industry is exercised through control of finance". With this, I respectifully agree. It is high time Kenya kept control of her economic purse in which foreigners have, at present, a large share. Kenya has nothing to lose by acquiring such control and has everything to gain in the form of a valuable channel for mobilizing the nation's savings for investment in areas of long term and structural benefit to the nation's economy.

In general, the only obstacle to nationalization is Kenya's dependence on foreign technology, knowhow and capital. Opponents of nationalization argue that these essential elements to industrialization are available mainly from foreign investors who would refuse to supply these essential inputs. Also lack of skilled manpower is cited by opponents of nationalization. What if all these things were available to Kenya then what would the opponents say? Then they would base their opposition on philosophical and perhaps religious ground. It is submitted that far from being a vice, nationalization is a great virtue to Kenya. It enables the state to direct the then nation's resources to areas with long term economic benefit to the nation. It removes the predominance of the profit motive (in dollar terms) that pervades all investment by private investors that lead to underutilization of capital and a general misallocation of the nation's resources. For example, today, industrial investment by foreigners is geared towards quick return and is not capable of self sustenance. With the control of resources in the state's hands, long term development consideration take precedence over the quick returns investment criterion. Also the returns from such investments can be

21. <u>Who Controls Industry In Kenya?</u> N.C.C.K. Working Party Report, EPH, Nairobi, 1968P. 218.

better distributed under state control than under private enterprise.

I must here caution that the nationalization I have in mind is not the same as that described in this paper which the Kenyan regime has pursued. It should not lead to a mere change of labels - from foreign capitalists to local elite capitalists. For private enterprise has no geographical or racial qualifications. A locally controlled private enterprise system is as much profit oriented as one controlled by foreigners. Genuine nationalization in my view should entail the state's participation as an agent of the nation at large and not as a prop to the elitinization of the Kenyan economic system.

Another aspect of government participation in Kenya is its Africanization theme. The Industrial and Commercial Development Corporation (ICDC) for instance, which is the largest government investor in foreign enterprises is seen "as the temporary custodian of its investments pending their eventual transfer to direct or indirect African ownership".[22] Again here the emphasis is to share the profits of foreign investment with some better off Africans. This constitutes a symbiosis between the privileged African elite class and the foreigners that creates a community of interest in preserving the present economic system and in protecting its component parts the greatest of which is foreign. The withdrawal of foreign private investment in Kenya would no doubt bring tumbling down the present economic system which would have the effect of "pulling the chair from under" the local African elite class, a prospect they would hardly cherish.

The symbiosis of interest between local elites and foreign capital pervades the ideology. This is best illustrated in the speech by an ICDC executive director to the Kenya Association of Manufacturers, an extract of which reads:

> "We in the Association believe in free enterprise. This is a system of social, economic and political arrangements designed to solve basic economic problems with greatest efficiency. I am convinced that unless the African who forms more than 95% of Kenya's population feels that he is part and parcel of our industrial and commercial economy... it could be difficult to create a stable economy ...It is vital that our industry be identified as truly local by the ordinary man in the street. He must be made to feel that it is truly his industry.... You have a responsibility, assist in the Aficanization of commerce and industry if for nothing else, at least for the preservation of the institution and value of ...the free enterprise system."23

23. Leys op.cit at p.145 (Emphasis Mine)

The maker of this speech is representative of the typical Kenyan elite that has built its economic empire from political favours extended through partial Africanization of foreign enterprise. He recommended five ways of assisting Africanization:

> "a. conversion of private companies into public companies with a view to offering substantial shareholdings to Africans;
>
> b. The manufacturers gradually build African distributors and wholsesalers;
>
> c. the existing distributors and wholesalers could assist the Africans to share in the market rather than try to prevent their entry into it;
>
> d. investors could invite African participants in the new ventures they plan to establish; and
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> e. by giving the African management opportunity in the enterprises and providing him with management training oppo rtunities."24

Implicit in all, but the last of these recommendations is the assumption that the recommendation apply to Africans who can financially afford to take the opportunity if offered. In a country where the per capita income of over 90% of the population is below K.£ 40 these recommendations are shameless and opportunistic proposal for the elitinization of the African share of the economy. It is not hard to understand this way of thinking when we realize the stake of this person in Kenya's economic pie that is a direct result of the Kenyan economic policy of unequal distribution of economic benefits in the name of free enterprise. By 1973, this person was an Assistant Minister and also owned one-third of the shares in Concrete Pipes and Products (1970) Ltd. which had taken over a non-African concrete factory. The firm had received debentures of K.Shs.350,000/- from ICDC (to which he was former executive director!) and K.Shs.82,500/- from the government controlled Kenya Commercial Bank. He owned one-quarter of the Zenith Printing Works, another enterprise taken over from non-Africans and which had been loaned K.Shs.415,000/- by ICDC. He owned half of the shares in Chameleon Ltd. which enjoyed privileges and subsidies as part of a subsidiary of ICDC. He also owned half of the shares in Waka Investment Ltd., a large scale farming enterprise in the heart of Kenya's farming area which obtained loans of K.Shs.897,000/- from the Agricultural Finance Corporation (a Statutory corporation under the auspices

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24. Ibid at p. 146

of the Ministry in which the person was Assistant Minister!), K.Shs.300,000/- from the government controlled National Bank of Kenya and yet another K.Shs. K.Shs.75,000/- from the Kenya Commercial Bank. He also had interests in commercial, construction and transport firms; he was involved with Asian capitalists in several metal working companies; and was on the board of Leyland Paints, a subsidiary of a foreign multinational firm. To add to the chipps, his wife owned half of the shares in Chania Merchants Ltd., a commercial enterprise - which had received K.Shs.155,000/- from the government controlled banks.[25] It is clear that in his case, he did not have to be made to feel that Kenya's industry was truly his. The make-believe element was only for the "ordinary man on the street!" This pattern of benefits of the system can be reproduced, even in more substantial proportions, for many other Kenyan politicians and administrators. It illustrates the dependence on the state by the African privileged elites in accumulating capital. What it tells is that nationalization and Africanization of foreign equity far from being a threat to foreign enterprise, is being tailored to be its strongest ally by cementing a community of vested interests between the Kenyan elites and foreign capital. In other words it is not done for reasons of national interests which would appear to be only incidental to the personal interests of the Kenyan policy fomulators.[26]

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25. This account is taken from Langdom, op.cit,atpp.68-9

26. Y.P. Ghai, "Control and Management of the Economy! Research Perspectives on Public enterprise". In Law in the Political Economy of Public Enterprise. Ed. Y.P. Ghai, Scandinavian Institute of African Studies, Uppsala, I.L.C., New York, 1977p.16.

THE IMPLICATIONS OF THE NDEGWA COMMISSION REPORT (1971) RECOMMENDATIONS ON PRIVATE INTERESTS AND THE PUBLIC ENTERPRISES*

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THE IMPLICATIONS OF NDEGWA COMMISSION REPORT (1971) RECOMMENDATION ON PRIVATE INTERESTS AND THE PUBLIC ENTERPRISES*

1. INTRODUCTION

A challenging task of any discussion on the recommendations of the Ndegwa Report and its relation to the emergence and management of public enterprises, is how to locate the phenomenon they represent in the historical and political economy of post-colonial Kenya. What are the salient points of this political economy? First, this is a period of transition from colonial economy to post-colonial Kenya. The second feature of this period is the emergence of an indigenous capitalist class which needed to accumulate capital, and hence needed the support of the state and state apparatuses in its penetration of the economy and its confrontation with the local Asia and European capital. At another level it needs the state apparatuses to challenge, and in other instances, co-operate with foreign capital. The third feature of political economy of this period, stems from the needs of features outlined above, that is, the need for an increased intervention of the state in the economy. The need to generate domestic capital, support the emergence of an indegenous capitalist and thereby give the development of post-colonial capitalism a nationalistic outlook, was a historical imperative.

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* Since this paper was written, the government has published the Report of the Civil Service Review Committee, 1979-80, which was chaired by S.N. Waruhiu. The Report recommends inter alia that the public officers should declare their private interests, and should resign if they did not do so within a specified period of time. It also recommends the definition and demarcation of areas that public officers and their families can participate in with approval.

The observations of the Waruhiu Report (as the report is commonly known) and the recommendations on private interest thereof do not alter the substance of the argument of this paper, but rather strengthens the observations we have made. We regret however that because of limitations of time we cannot consider the recommendation of this report in the details that it requires.

The nature and extent of state intervention in the economy in this period stemmed from the weakness of the indigenous capitalist class to challenge on its own the existing Asian and European capital. Their weakness in relation to Asian and European capital, and the international capital is a reflection of the existing class formation in the transition to post-colonial Kenya.

It is in light of these factors that the recommendations of the Ndegwa Commission and subsequent statements on the issue of involvement of public servants in private enterprises should be analysed and evaluated.

Below we provide some relevant quotations on this debate:

(a)... there ought in theory to be no objection to the ownership of property or involvement in business by members of the public services to a point where their wealth is augmented perhaps substantially by such activities. But common with many other African countries the achievement of independence in Kenya brought with it great opportunities for individual advancement both as to main careers and in other rather less orthodox ways. It is understandable that public servants should have taken their opportunities like other citizens but if the benefits in some cases seem to be out of proportion to the opportunities which have been available to them in common with other citizens it is inavitable that questions should be asked as to how this has come about.

Report of the Commission of inquiry (Public Service Structure and Remuneration Commission) Ndegwa Report 1971.p.14 (emphasis added)

(b) Since the Ndegwa Report....Allowed civil servants to own any kind of property and take part in any kind of business, no-one can stand up and argue that the efficiency of individual civil servants who took uncontrolled advantage of this relaxation of tradition was not affected somewhat adversely. Human beings are basically selfish and are more able to look after their own interests than those of other people. Civil servants should not, in my opinion, be encouraged to spend public time and equipment looking after their material interests during official hours. It is not possible for policy makers or any persons who contribute to the formulation of policy to remain fair and just if they are placed in positions where they are able to benefit from the execution of those policies. (emphasis added).

H.J. Nyamu, The State of the Civil Service Today. Government Printer, 1975.

... the / Ndegwa / Commission's recommendations involved acceptance that in Kenya's conditions - that is to say, the conditions of neo-colonialism - the public service had to be paid on a quasiprebendary basis. The higher civil servants would be allowed to "take their opportunities like other citizens; and so acquire a stake in the profits of the system".

Colin Leys, Underdevelopment in Kenya: The Political Economy of Neo-Colonialism London Heinemann 1975 p. 250.

That the national ethic be established through discussions and debate to provide a basis and a social context within which political and administration acts of Kenyans can be judged and that the values embodied in such ethic should help provide a commonly shared reference point for the behaviour of Kenyan leadership in the course of national development, and also that the code of ethics for the civil service should be revitalised and applied.

That in order to avoid conflict of interest and the exploitation of their positions for their own private ends, public officers i.e. ministries, MPs, civil servant and senior executives in statutory bodies shall be required to register their interests, and these should be monitored regularly so as to ensure accuracy of the information.

K.I.A. Leaders' Conference Resolutions No.4 and 5 1978. The Weekly Review, January 30, 1978.

This report breeds and encourages corruption. I have never believed in that Commission and with what is going on now I am even more opposed to it. The time has come for us to practice the philosophy of one man one job if the national cake is to be fairly distributed among our people. Rich civil servants should be removed from office to go and build the nation as full time landlords, farmers or matatu owners.

Hon. J.M. Shikuku MP for Butere, The Weekly Review, January 11, 1980.

Evaluating the impact of Ndegwa Commission today, two aspects of its recommendations stand out as significant in influencing the social and economic changes that have taken place in Kenya since the report was issued nine years ago. As it will become evident later on, these recommendations have had an impact on the ideology and reward structure adopted in the management of public enterprises.

The first important aspect of the Commission's report was the formulation of an ideological and functional justification of differential rewards and incentives in the public service (paras. 89-115). The report emphasized the functional necessity of rewarding "skill, resourcefulness and dedication which will shape the future of the country," and in particular the public service. As Kenneth Prewitt (1972) has pointed out the Ndegwa Commission report gave functional justification for income inequality not only in the salary structure, but in the society in general. Although this aspect of the report has not been a subject of academic or popular debate, it is nevertheless an aspect which has influenced the reward system in the public institutions and to a large extent become the ideological basis for justifying salary and income differentials in the society. The functionalist ideology, its emphasis on individual merit, ability and skills as determinants of income differential in public service and the society was well articulated in this report thereby codifying the capitalist reward system as part of the national ethic.

The second aspect of the Ndegwa Commission relates to the recommendation allowing public servants in permanent employment to engage in accumulation in private enterprises. This is the recommendation which has preoccupied a great deal of academic and popular expression in the last nine years. /Leys 1975; Cowen and Kinyanjui, 1977; Members of Parliament 1972; Nyamu, 1975; and Shikuku 1980_7.

The academic and popular expression that has been focused on this aspect of the report has tended to emphasise three points. First, the report has been criticised for encouraging corruption and inefficiency in the public service. Apart from politicians, the most systematic and clear articulation of this line is that carried by A.J. Nyamu, the Principal of Kenya Institute for Administration in 1975. On this issue of corruption he says:

> Let us begin by agreeing with the many newspaper allegations that corruption exists in the Civil Service. Let us also acknowledge that the courts have often meted out severe sentences on convictions for acts that amounted to corrupt practices.

He critically also observes that "the private sector has made tremendous inroads into the policy-formulation spheres of the Civil Service relating to business" and in the administration of the public sector. In this vein he argues the boundary between public service work and private business activities is masked, with serious consequence to government policies and decision making process.

The resolutions of the last two leaders' Conference (1978 and 1980) have also accepted corruption in public service as a serious problem that should be dealt with. We must however note that existence of corruption in the public service cannot entirely be attributed to the Ndegwa Report recommendation although in public pronouncements, this distinction is not usually made.

The second point emphasised in the criticisms of this report is the contention that it encourages some segments of the salariat class to hold more than one job. This, they argue deprives some unemployed people the opportunity of being employed. In forefront of this crusade has been the Hon. Martin Shikuku (1980) who has often articulated that he calls "the philosophy of one man one job" as a means of distributing the national cake equitably. While recognising the Ndegwa Commission allowed these in permanent employment to engage in private business, it does not follow, that if this practice was discontinued the number of available jobs would increase. The weakness of the arguments of the advocates of one man one job should be recognised in terms of employment generation and its lack of appreciation of the dynamics of the distribution of income and wealth in the society. Indeed it is necessary to evaluate contribution of public servants straddling into accumulation in private enterprise, in terms of employment creation and income generation. My hypothesis is that this phenomenon has created employment o opportunities rather than minimised the available positions. The impact of investment of the revenue available to the salariat class engaged in private enterprises needs to be critically assessed like capitals emanating from elsewhere.

The third point which emerges from the evaluation of Ndegwa Commission Report in the past relates to the contribution phenomenon of straddling between permanent employment and private enterprise makes on one hand, in the development of an indigenous capitalist class and specifically domestic. Capital and on the other hand complements the efforts of the state in the Africanisation of commerce and industry. Looked at from the other angle, then it becomes a question of how the Ndegwa commission sanctioned an ongoing historical process of capitalist accumulation and class formation.

Although Nyamu does not view this phenomenon as part and parcel of the development of an indigenous capitalist class, he nevertheless points the critical characteristics of this fraction of the salariat class. He writes,

> When the policy of Africanizing business premises and business without premises, became a reality in this country, the majority of the people who had the know-how and the necessary financial skills were civil servants. They were also among those who had the means, like capital to take advantage of this policy. They had more than this . They were the people in positions of power and influence, so that where capital was a problem, they were well placed to use this power and influence to have standard requirements relaxed by finance houses in order to enable them to take advantage of this policy. From this point of view, and and in the prevailing circumstances, we could not realistically say that the civil servants did anything out of the ordinary. Once a policy had been formulated and officially approved, it was those who were in a position to take advantage of it that benefited more than those who were not so well placed. Secondly, and in defence of the Civil Service, it would have been unfair to exclude them from the list of nationals of this country, because they are in fact leading citizens of Kenya. pp4-5 (emphasis added).

The critical characteristics of this group was that it was educated had revenue and know-how, and above all power and influence which could be translated into economic advantages. These are important factors in the emergence of an indigenous capitalist class which depends on the state for accumulation. The emergence and indeed the aims of public enterprises such as Kenya National Trading Corporation (KNTC), Industrial and Commercial Development Corporation (ICDC) and Agricultural Finance Corporation (AFC) were essentially for the furtherance of the creation of an African capitalist which could replace Asian businessmen and to some extent challenge the dominance of metropolitan capitals in the economy. The dynamics of this process is what has attracted academic attention (Leys 1972, Wasserman 1976, Cowen and Kinyanjui 1977 and Swainson 1980), rather than allegations of inefficiency and corruption. Viewed from the wider perspective of capitalist accumulation, what has to be decried as misuse of public positions funds and institutions are but crude forms of accumulation of capital - which in more advanced capitalist states have been replaced by more sophisticated forms of accumulation of capital.

This approach to Ndegwa Commission Report, then call for locating the recommendations in the context of political, economic and historical development of capitalist mode of production in colonial and post-colonial Kenya. Thus, instead of viewing the public service as entity by itself, attention should be focused on its place in the process of production and particularly in the creation of an indigenous capital.

2. THE BACKGROUND TO THE EMERGENCE OF NDEGWA COMMISSION RECOMMENDATIONS

At the outset, it is necessary to point out that the phenomenon of straddling between permanent employment in state apparatuses and accumulation in private enterprise, which the Ndegwa Commission sanctioned, is not a consequence of Africanisation which occured at the transition from colonial to post-colonial state 1960-1970, but something that has deep roots in the colonial period. It is essentially a phenomenon noticeable in the process of transition from pre-capitalist mode of production to capitalist mode of production which was dominant in the colonial period, is the level at which Africas participated in the process.

In the colonial period, the dominance of settler capital in commerce, farming, industry and in control of state apparatuses excluded Africans from many avenues of accumulation of capital. Hence, the levels and areas in which they were allowed to operate were strictly controlled. Therefore the Africans who were employed as clerks, teachers, artisans, court elders and chiefs were straddling between permanent employment and private accumulation, thereby accumulating revenue which enabled them to acquire land by purchase and to establish trading ventures. By 1970 the position and revenue available to teachers clerks and artisans had changed dramatically. At independence, Africans had moved into positions of power in state apparatuses which enabled them to obtain necessary revenue for engaging in private enterprise not merely to supplement means of subsistence, but for the purpose of accumulation.

The attainment of independence and the Africanisation which followed removed the restrictions which prohibited African entry into some sectors of commerce and industries, and at the same time propelled Africans into positions in the state apparatuses which had revenue and power to enable them to engage into private accumulation with relative ease and personal benefits.

The present phenomenon of straddling between permanent employment and private enterprise had been boosted by two complementary social forces namely the gradual sweeping away of the code of regulations which governed the acquisition of private property by public servants - the Ndegwa Commission being the culmination of a process of easing the code regulating acquisition of private interests by public servants while in public service. And secondly, the freeing of indigenous people from colonial restrictions (which were imposed for the benefit of settler capital) which hindered their participation in commodity production and engaging in commerce and industry on equal basis with Europeans and Asians.

The changes which are observable in the code of regulation governing acquisition of private property by public servants should therefore be evaluated in the light of the transformation of colonial political economy and the transition to post-colonial social formation.

Below we examine the changes in regulations and the incorporation of Africans into the colonial capitalist economy.

a) Changes in regulations governing Acquisition of private property by public servants, 1922-1971.

Our analysis start with the code of regulations for public officers in the colonial government service. The first code of regulations adopted in the colony came into effect in 1922 and the relevant regulations for discussion were numbers 285-287. These are the regulations which were changed gradually in the colony and finally in 1971 to allow public officers to engage into private enterprise. Below we reproduce the regulations as formulated in 1922 and thereafter we show how they were changed to take into consideration changed circumstances in the colonial and post-colonial Kenya.

1922 Regulation 285:

(i) Salaried public officers, whose remuneration is fixed on the assumption that their whole time is at the disposal of the government, are prohibited from engaging in trade or employing themselves in any commercial or agricultural undertaking.

(ii) No public officer on leave of absence is permitted to accept any paid employment without previously obtaining the express sanction of the Secretary of State, or if his leave is spent in the colony, of the Governor.

(iii) No public officer is to undertake any private agency in any matter connected with exercise of his public duties.

Regulation 286: All salaried public officers, whether or not their whole time is at the disposal of the government, are prohibited from directly or indirectly making or holding anylocal investment, speculation in s shares, or being connected with any company, occupation or undertaking, which might bring private interests into real or apparent conflict with their public duties, or in any way influence them in the discharge of their duties, without previous permission of the Government-in-colonial. (This also prohibited possessing private interests in Uganda and applied to officers' wives and families.) Officers owning land locally should not if possible be posted for service to the districts in which their land is situated.

Regulation 287: An officer having an interested in any commercial under taking which transacts any business with a government department shall disclose the details of the particular transaction or transactions to the head of his department, and to any head of a department who may be the second party to the contract, the details of his interest in the transaction.

1931: Three conditions were set out which were to be considered in deciding whether or not private employment would be undertaken by government officers:

(a) was there in existence of capable private individuals to do the work:

(b) was it in public interest for a public officer to take private employment; and

(c) whether to grant a particular priviledge to a public officer could lend others claiming similar treatment.

1948: The regulations remained as in 1931, but the permission of Government-in-Council was required for a public officer to engage in private employment. A disclosure of private interests an appointment or assumption of public office was required and then the Governor was to decide whether there was a conflict of interests involved.

1966: The regulations remained basically unchanged from 1948 until this period. One important change was instituted in 1966 which relaxed the acquisition of private interests by public servants. The Permanent Secretary (P.S.) was authorized to approve the acquisition or holding of investments, or purchase of land of class than 30 acres. The P.S. in turn has to seek permission for acquisition of land of any extent from Permanent Secretary in the Office of the President. Here we should note that this authority in the colonial period was vested with the governor. In the period between 1966 and 1971 this authority was vested in the hands of public servants. The significance of this change should not escape attention in view of the changes which occured in 1971.

1971: The Ndegwa Commission Report called for amendment of code of regulations which restricted the participation of public servants in private enterprises, and then recommended that "all senior officers should make a complete statement of their interests as required by the amended rules on basis that failure to have done so hitherto will not of itself count against them".

The changes in code of regulations can be interpreted as resulting from increased power of public servants in the state matters in relation to elected leaders. This, it can be argued is particularly so after independence when the local civil servants were not under control and scrutiny of imperial parliament, and other metropolitan interests which tended to check the excess of colonial administrators.

While the above may be the case, the internal dynamics of the colonial and post-colonial society must be evaluated, for it is within this context of social and economic forces operating here that the changes outlined above can be understood.

(b) Changes in the Political-Economy of Colonial and Post-Colonial Kenya.

By 1948, the material and institutional foundation for the development of peripheral capitalism were firmly established. But in-built in this framework were contradictions which generated conflicts that threatened the continuation, and indeed the expansion of the process of capital accumulation. The Mau Mau armed struggle was the main threat to this structure in the 1950s.

The existing conflicts revolved around the way the immigrant groups monopolised and controlled land, production of agricultural commodities, participation in trade and commerce and above all access to state power. The main contradiction in this phase of colonial development was between the indigenous people, and the immigrant groups (Europeans and Asians) who constituted the dominant colonial capitalist class.

The challenge of transition to post-colonial economy was therefore an attempt to resolve this contradiction by incorporating and accelerating the emergence of an indigenous capitalist class with interest and commitment to maintenance of a capitalist economy. The strategy was implemented in the period between 1952 to 1969, and involved the transfer of state power into hands of African nationalist (independence in 1963) , and incorporation of indigenous capitalist class in large-scale agriculture (through insitution like Agricultural Finance Cooperation (AFC), World Bank and Commonwealth Development Corporation) and in Commerce (through Kenya National Trading Cooperation) (KNTC) ICDC and more recently through Industrial Development Bank (IBD). The Africanisation of business was also effected through regulation and control of the former dominant group in this sector, Asians, as from 1967. Through institutional and financial support of the African commercial class, the Asian were edged out of the lucrative trade. The competition of capital in this sector is by no means over.

It is in the light of this that we should note that the proportion of African private companies formed in Kenya increased from 19 per cent in 1966 to 33 per cent in 1971 and 46 per cent in 1973. In the same period the proportion of companies, formed with mixed ownership (Africans, Asians and Europeans) increased from 15 per cent in 1966 to 20 per cent in 1970 and then dropping to 15 per cent in 1973. (Swaison 1980). The application of Trade licensing Act of 1967 had an impact on these changes.

By 1970 therefore, the transition from colonial to post-colonial economy was secured. The main features of the emergent post-colonial political economy were, first, the expanded role of the state with a powerful bureaucracy. The state had expanded its state apparatuses to penetrate into the economic sector. Thus the state had become a critical and leading institution in the continued development of indigenous peripheral capitalism. The second feature of this period was the expansion of domestic and foreign capital in commodity production, commerce and in the process of industrialisation. The public servants straddling between permanent employment and private accumulation found their place in this expansion.

It is this context that the changes in code of regulations of civil service discussed above should be evaluated and understood. It was not therefore a conspiracy on part of civil servants to engage into private business, but the dynamics of capitalist development propelled the changes experienced in the sixties and early seventies. The forces at work had their roots in the colonial political economy.

3. PRIVATE ACCUMULATION AND PUBLIC ENTERPRISE

The debate on public servants involvement in private accumulation while holding public service positions has often been viewed as breeding corruption, inefficiency misuse of state power and overall mismanagement of public institutions. But it should be questioned whether these evils are a result of the Ndegwa Commission recommendations. To answer this question, the Kenyan experience in management of public enterprises should be measured in the light of experience of other countries where private accumulation by public servants is checked by the existing ideology and institutions. The experience of Tanzania and Zambia is particularly relevant in this respect. The evidence available from the two countries, seem to indicate that these countries have not faired any better than Kenya. Comparison of this kind is to some extent subjective but there is substance to this general observation.

What needs to be recognised as a major contribution of the straddling phenomenon sactioned by the Ndegwa Commission is the contribution it makes to the process of private accumulation, a necessary step in the emergence of indigenous capital. The activities of public servants which are usually condemned by some politicians are in essence part and parcel of accumulation process in the peripheral capitalism. The state and state apparatuses are therefore essential instruments of this process of private accumulation.

One of the measures of dealing with the excess of this capitalist accumulation is to establish the rules of the game which all the interests involved in the game will follow: This is what seems to have been advanced by Hon. Mwai Kibaki in 1978 when he told the leaders conference that

> there are... questions of structural and procedural streamlining of the public sector. For example, we all abhor violations of import restrictions which we have placed for certain specific economic reasons. Are we satisfied that import restrictions are sufficiently enforced? Is there sufficient autonomy and authority to permit the officers who are charged with this duty to plug all loopholes? Similarly we have designed work permits to ensure that our local manpower grows steadily. Is the power to regulate such permits properly located? Does the authority include sufficient autonomy and security from intimidation?

These questions can be raised virtually for every state institution in Kenya. The exposures that have surfaced in the recent few years have led the public to raise similar questions to those raised by Mr. Mwai Kibaki. It is possible a solution can be found to these problems by establishing rules of the game which members of the class in control of state institutions should follow and expect others to follow .

But while inter-class conflicts and competition can be expected to be resolved without serious threat to the process of accumulation, the question remains of how the subordinated classes can deal with the excesses and abuses which are inherent in the capitalist accumulation. Two alternatives seem to be open to the subordinated classes in Kenyan. First, they can struggle for strengthening of the safeguards which exist within the capitalist structure. Given the popularist tendencies in the Kenyan politics, some measure of concessions can be obtained which will protect the ordinary people from excess of small segments of the ruling class. This would involve the strengthening of the existing democratic institutions and in some cases establishing of new ones to cope up with new situations.

The second alternative calls for the transformation of the capitalist structure that has become entrenched in post-colonial Kenya. The main question this alternative rises is what are the forces that can bring this transformation. A casual analysis of the present status of the working class movement in Kenya does not indicate that this class is at present organised or articulate enough to spearhead this struggle. Thus in the present Kenyan circumstances, this alternative seems to have limited chances of success. What therefore remains as a viable alternative is to strengthen and where possible to start new institutions to safeguard the interests; of subordinated classes.

4. CONCLUSION

The recommendations of the Ndegwa Commission report cannot be blamed for corruption and inefficiency which is said to exist in the public service. What the Ndegwa Commission has done is to allow the public servant to engage in private accumulation, thereby strengthening the emergence of an indigenous capital class. This process however did not arise out of the recommendations of this report as such, but more from the dynamics and needs for capitalist accumulation. The Ndegwa report recognised this social force and called for official sanctioning of it.

Looked at from the perspective of the emergence of indigenous capital, the Ndegwa Commission gave the process an ideological justification and removed the bureaucratic regulations that hindered its full sway. In this way it paved for the Africanisation of the post-colonial economy, a task which the late colonial and post-colonial state wanted to see accompalished as part of bringing the indigenous people into the mainstream of capitalist development in Kenya.

From this capitalist perspective we can conclude with words of William Shakespear (King Henry V) when he says:

The strawberry grows underneath the nettle,
And wholesome berries thrive and ripen best
Neighbour'd by fruit of baser quality.

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CONFERENCE

ON THE ROLE OF PUBLIC ENTERPRISES IN DEVELOPMENT IN EASTERN AFRICA

4TH TO 7TH NOVEMBER, 1980

P R O G R A M M E

4th November, 1980	9.00 a.m.	Key Note Address, Prof. W.M. Senga, Director, Institute for Development Studies.
	9.30 a.m.	Mrs. I. Heidermann, Friedrich-Ebert-Foundation, Bonn, West Germany, Public Enterprises and Economic Sciences in Africa.
	10.30 a.m.	Tea Break
	11.00	David Wainaina Gachuki, Department of Commercial Law: University of Nairobi.
	12.00	Lunch Break
	14.00 p.m.	R.B. Mabele, University of Dar-es-Salaam, Tanzania, "Some Issues on the Political Economy of Public Enterprises in Tanzania".
	15.00 p.m.	Tea Break
	15.30 p.m.	Dr. J. Kinfu, Addis Ababa University, Planning Office, Ethiopia, "Towards Better Understanding the Development and Performance of State Corporations and State Enterprises - with Reference to Ethiopia Experience".
5th November, 1980	9.00 a.m.	Dr. W. Oyugi, University of Nairobi, Department of Government, Kenya, "Government and Public Enterprises: Some Lessons from Kenya".
	10.00 a.m.	Tea Break
	10.30 a.m.	C.P. Atikoro, Makerere University, Department of Commerce, Uganda, "The Role of Government in Public Enterprises: A Case for Uganda Advisory Board".
	11.30 a.m.	Mr. Thomas Byatike, Ministry of Finance, Uganda, "Independence and Accountability in State Enterprises in Uganda".

	12.30 p.m.	Lunch
	14.00 p.m.	Dr. K. Kinyanjui, IDS, University of Nairobi, Kenya, "Public Enterprises and the Effects of the Ndegwa Report".
	14.30 p.m.	Tea Break
	15.30 p.m.	Dr. H.G. Klaus, IDS, University of Nairobi, Kenya, "Managerial Problems and Strategies of Parastatals in the Kenyan Horticultural Industry".
	16.30 p.m.	Dr. L. Msambichaka, University of Dar-es-Salaam, Tanzania, "The State Farm Sector and Agricultural Production in Tanzania".
6th November, 1980 (Thursday)	9.00 a.m.	Dr. P. Hopcraft, Mr. Ogutu, IDS, University of Nairobi, Kenya,"Parastatal Industrial Banks and Their Relationship with the Private Sector".
	10.00 a.m.	Tea Break
	10.30 a.m.	Mr. Moshi, E., University of Dar-es-Salaam, Tanzania, "Financial Performance of Public Enterprises in Tanzania".
	11.30 a.m.	Lunch Break
	13.00 p.m.	Participants visit one of Kenya Tea Development Authority's Tea Factories.
7th November, 1980 (Friday)		Free Morning
	14.00 p.m.	Dr. E. Suruma, Makerere University, Kampala, Uganda, "An Assessment of the Profitability of Major State Enterprises in Uganda from 1962 - 1980".
	15.00 p.m.	Tea Break
	15.30 p.m.	Dr. Bruening, Dietrich, C., CAFRAD, Morocco, The Internal Structure and Performance of Public Enterprises.
		Closing Session
	18.30 p.m.	RECEPTION

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WORKSHOP ON THE ROLE OF PUBLIC ENTERPRISES IN DEVELOPMENT IN EASTERN AFRICA
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