



World Bank Discussion Papers

Public Enterprises in Sub-Saharan Africa

John R. Nellis

FILE COPY



World Bank Discussion Papers

Public Enterprises in Sub-Saharan Africa

John R. Nellis

The World Bank
Washington, D.C.

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

All rights reserved
Manufactured in the United States of America
First printing November 1986 Second printing April 1988

Discussion Papers are not formal publications of the World Bank. They present preliminary and unpolished results of country analysis or research that is circulated to encourage discussion and comment; citation and the use of such a paper should take account of its provisional character. The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. Any maps that accompany the text have been prepared solely for the convenience of readers; the designations and presentation of material in them do not imply the expression of any opinion whatsoever on the part of the World Bank, its affiliates, or its Board or member countries concerning the legal status of any country, territory, city, or area or of the authorities thereof or concerning the delimitation of its boundaries or its national affiliation.

Because of the informality and to present the results of research with the least possible delay, the typescript has not been prepared in accordance with the procedures appropriate to formal printed texts, and the World Bank accepts no responsibility for errors. The publication is supplied at a token charge to defray part of the cost of manufacture and distribution.

The most recent World Bank publications are described in the catalog *New Publications*, a new edition of which is issued in the spring and fall of each year. The complete backlist of publications is shown in the annual *Index of Publications*, which contains an alphabetical title list and indexes of subjects, authors, and countries and regions; it is of value principally to libraries and institutional purchasers. The continuing research program is described in *The World Bank Research Program: Abstracts of Current Studies*, which is issued annually. The latest edition of each of these is available free of charge from Publications Sales Unit, Department F, The World Bank, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A., or from Publications, The World Bank, 66, avenue d'Iéna, 75116 Paris, France.

John R. Nellis is a management specialist in the Public Sector Management Unit, Projects Policy Department of the World Bank.

Library of Congress Cataloging-in-Publication Data

Nellis, John R.

Public enterprises in Sub-Saharan Africa.

(World Bank discussion papers ; 1)

Bibliography: p.

1. Government business enterprises--Africa,

Sub-Saharan. I. Title. II. Series.

HD4338.N45 1986

338.7'4'0967

86-24756

ISBN 0-8213-0845-9

The author wishes to acknowledge the assistance of Sunita Kikeri, who contributed to the section on Performance of Public Enterprises, Lori Ross, who conducted the basic data-gathering exercise, Mary Shirley, who contributed to the data section and commented extensively on earlier drafts, and the many World Bank staff members in the East and West Africa regions who reviewed earlier drafts. The author assumes responsibilities for remaining flaws or errors.

TABLE OF CONTENTS

	<u>Page No.</u>
Executive Summary	vii
I. Introduction	1
II. Data on African Public Enterprises	3
III. Rationale for Public Enterprises	6
IV. Performance of Public Enterprises	11
V. Analysis of Performance	14
VI. Agenda for Reform	36
Divestiture	36
Rehabilitation	43
Markets and Competition	44
The Reform Process	48
<u>Bibliography</u>	60

Tables and Figures

Table 1	Sub-Saharan Africa: Number of PEs
Figure 1	Sub-Saharan Africa - Number of PEs
Figure 2	PE Share of GDP
Figure 3	Sub-Saharan African PEs - Share Gross Fixed Capital Formation
Table 2	Non-Financial PEs' Share of Non-Agricultural Employment
Figure 4	Sub-Saharan African PEs - Share Domestic Credit

Executive Summary

African governments have relied heavily on public enterprises to achieve their development goals. This study reviews the rapidly improving data-base on African public enterprises, describing their number, type, sectors of operation, employment patterns, and their financial and economic importance. Public enterprises are defined as government owned or controlled entities which are supposed to earn the bulk of their revenues from sales, have a distinct legal identity, and are self-accounting. Regulatory agencies and statutory boards are excluded from the analysis.

Data on African PEs

A conservative estimate places the total number of African PEs meeting the restrictions of the above definition at about 3,000. PEs dominate the economies of many African countries; they typically account for relatively high percentages of African countries' GDPs, and for very high percentages of manufacturing value added. They tend to be capital intensive in production. In many African countries, the PE contribution to formal sector employment is or has been high; in others, PEs have not been a major generator of employment.

African PEs are important borrowers. They frequently dominate local capital markets, and their borrowings - and poor performance - have contributed to the growing foreign debt and servicing burden of most of the countries in the region.

Reasons for PEs

There are many reasons explaining why African states have created and sustained PEs. Institutions and predispositions inherited from centralized, interventionist colonial regimes; a tendency to associate liberal capitalism with colonialism and imperialism; the post-war ascendancy of leftist/statist political ideologies; the apparent absence or embryonic nature of the indigenous private sector; the conversion of failing private enterprises into public enterprises to forestall increases in unemployment; the attractiveness of PEs to politicians who use them as patronage mechanisms to distribute jobs to both the mighty and the minor - these are but some of the more important historical, economic, social and political factors which have led almost every African state to create a large public enterprise sector.

Performance of PEs

The study's third objective is to analyze African PE performance. The existing data-base precludes the presentation of aggregated, quantified indicators of performance for Africa as a whole. Instead, the report presents country specific data, and figures based on sub-regional studies, mainly from West Africa. Problems of aggregation and comparability of data are real but should not be overestimated: review of the data leads inescapably to the conclusion that PE performance has been poor; that PEs have yielded a very low rate of return on the large amount of resources invested in them.

PE earnings are generally low; many run losses; often these losses are of a large magnitude. Far from contributing to government revenues, African PEs have more regularly become a heavy burden on already strained budgets. Few PEs generate revenue sufficient to cover operating costs, depreciation and financial charges; a good percentage do not cover operating costs alone. In many instances where PEs are classed as profitable, closer examination reveals distorted prices, direct subsidies, hidden transfers, preferential interest rates and a host of other elements which - if properly accounted for - would reduce the paper profits of the PE in question. The conclusion is that African PEs present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor economic performance. Though every African country has one or more PEs which perform well by the most stringent of standards, on the whole, PE sectors are not fulfilling the goals set for them by African planners and leaders.

Analysis of Performance

The reasons for this are several: poor initial investment decisions and inappropriate pricing policies top the list. Many African PEs should simply never have been created. In a large number of African countries, controlled prices and failures to adjust prices in light of changing costs doom PEs to loss-making operations. African PEs tend to be undercapitalized - high debt/equity ratios are the norm. Large amounts of working capital are tied up in inventories and especially receivables. Governments fail to pay PEs for the good and services they provide; PEs retaliate by not paying taxes, or each other.

A set of managerial/institutional impediments to good PE performance is also important. This set includes the factors of overstaffing, political interference in day-to-day management decisions, unclear objectives, a weak human resource base, inadequate incentives for good managers, and the incompatibility of civil service procedures with commercial operations. At the level of the firm, poor information and reporting systems and, in particular, extremely weak accounting methods hinder the operations of a large number of PEs - and government supervisors. Weak or non-professional Boards of Directors, combined with rigid and stultifying government oversight mechanisms complete the picture.

Agenda for Reform

Obstacles to good performance are so numerous and daunting that an increasing number of observers propose the divestiture of PEs: through sales of ownership or assets, through leasing arrangements and management contracts, and through liquidation and closure of firms for which there are no prospects of sale or rejuvenation. Privatization of PEs is under consideration in a majority of African states, and an increasing number of sales are taking place; but to date classification schemes and preparations for privatization are far more numerous than actual sales.

Even if all PEs which could be sold or closed were divested in the immediate future, there would still remain in every African country a substantial PE sector. These sectors all require a proper macro- and micro-economic policy setting; most could benefit by being subjected to the stimulation of freer markets and competition; many require thorough

financial rehabilitation; and an equally large number are in need of changes in internal management and external supervision. The study concludes by concentrating on the last of these issues, while stressing that managerial/institutional reforms, important as they are, can only have a limited positive impact in the absence of sound economic policies giving a properly stimulative set of signals to all producing units, including PEs.

Managerial/institutional reform is everywhere a fluid and experimental process in Africa, as differing local circumstances call for flexibility of approach. Still, an outline of a reform process is emerging, based on the experiences of public enterprise rehabilitation efforts in a fair number of countries.

The process is composed of two broad phases - preparation for rehabilitation, and execution. The preparatory phase consists of diagnosing the importance and performance of the sector as well as assessing performance at the level of the firm (or of a sample of the most important firms). The diagnosis identifies major problems and lays out an agenda for reform, at the sectoral and individual PE level. This stage or step is followed by more specific improvement plans which - frequently after considerable analysis and further study - establish a sector's or an individual PE's mission and objectives, the actions to be taken to improve the legal and institutional environment, and necessary changes in economic regulations and internal management arrangements. In many West African francophone countries, this step has been followed by the drawing up of a contract-plan, a formal agreement between government and enterprise

specifying the mutual obligations and commitments of both parties. While very promising in theory, contract-plans have proven difficult to devise and implement. More importantly, there is to date no hard evidence that PEs with contract-plans perform better, in financial and economic terms, than PEs without contract-plans. Much more work needs to be done on assessing the utility of this mechanism.

The execution phase proceeds through implementation and monitoring of the revised arrangements and on to performance evaluation. The general aim is to assess achievements in light of the objectives clearly specified in the contract-plan or some similar mechanism; to stimulate by a posteriori rewards and sanctions PE productivity and efficiency (rather than to constrain managerial autonomy by a priori approvals). When and where it is clear that performance is increasingly out-of-line with objectives, then a revision of the contract-plan is called for. Experience shows that frequent revisions are desirable - most contract-plans now call for quarterly or semi-annual monitoring, and annual revision.

Solving the problems posed by African PEs requires a multi-faceted effort: economic policy reform, divestiture, managerial/institutional actions. None of these activities is simple or easy; all demand a concerted effort on the part of African governments and the international development assistance community.

Public Enterprises in Sub-Saharan Africa

I. Introduction

Each of the forty countries comprising sub-Saharan Africa possesses a public enterprise sector. The total number of African public enterprises (PEs) is unknown, but it is clear that there are a great many, and that - in line with developments elsewhere in the non-industrialized world - there was a major expansion of African PEs in the decade of the 1970s.

At a rough but still conservative estimate there are some 3,000 financial and non-financial African PEs, fully or partially controlled by governments. In their calculation of public enterprises, some African governments include hospitals, universities, research units and what are called in francophone countries "public establishments of an administrative character". This paper excludes such undertakings and deals more narrowly with those government-controlled enterprises which are supposed to "earn most of their revenue from the sales of goods and services, are self-accounting, and have a separate legal identity." (Shirley, 1983:2) The focus is on those economically important, quasi-independent entities which African governments have created to do what they feel their private sectors and bureaucracies cannot do (or are not doing, or in some cases, should not do).

The paper has three main objectives. The first is to present the available figures on PEs and PE sectors in sub-Saharan Africa; i.e., the

numbers, sectors of operation, employment patterns, their economic importance, etc. This data base, while weak, is presently being added to substantially. Figures produced in recent reports give one a bit more detailed picture of PE activity than was available just a short time ago. Thus, one aim of the study is to portray an up-to-date picture of PE activity in the region, in terms of the size, composition and impact of the sector, and its performance.

The second objective is to examine the many reasons explaining why African governments have so often and so fully relied on public enterprises to try to achieve their development goals. Inevitably, this discussion touches a number of issues not normally regarded as within the purview of economics; i.e., questions of ideological preference, political concerns, and social objectives of state firms, for example. It is not possible to avoid a consideration of these various factors. Indeed, the need to deal with a mixture of factors and concerns is a prime characteristic of the analysis of public enterprises, and is a major reason why the subject resists easy explanation.

Because economic theory provides neither "arguments for global condemnation nor for global preference of public production," (Eckert and Puschra, 1984:333), this paper does not attempt to establish general principles on what sectors or specific economic activities should or should not be in the public sector. Rather, the argument - and the presentation of this argument is the third objective - is that a review of the past performance record of the PE sector in sub-Saharan Africa indicates: (a) that the very large amount of resources invested in African PEs have

yielded a very low rate of return; that public enterprises are generally not achieving the objectives assigned to them by planners and leaders, and in many cases are adding to rather than resolving economic problems; (b) that while PEs everywhere suffer from managerial/institutional constraints, these are particularly acute in sub-Saharan Africa; and (c) the way to attack problems is by increasing efficiencies in public enterprises by expanding the role of markets, increasing competition, clarifying the relation between governments and enterprises, and optimizing managerial autonomy at the level of the firm. In some cases the situation might call for outright divestiture - privatization or liquidation of state enterprises - but in other cases "allocative efficiencies arising from enhancement of the role of markets ought to be obtainable irrespective of ownership." (Kierans, 1984:24)

II. Data on African Public Enterprises

The greatest difficulty when dealing with African PEs is obtaining accurate, aggregate comparative facts and figures. Different sources give different figures, even for such essential items as total number of PEs in a country. Consistent time series are not available and data on performance are particularly scant and unreliable. Countries in the region do not use a standard definition of PEs, much less the definition employed in this paper. Some countries' data exclude statutory boards, administrative agencies and other non-commercial bodies; other countries put them in. With regard to performance data, there are significant anomalies in PE accounts that make them inaccurate or even misleading. For example, in some countries profits may not be adjusted for

government transfers, or for special tax incentives or hidden subsidies such as privileged access to inputs at special prices or unofficial permission to incur large arrears without penalty. Assets may not be revalued, and the treatment of depreciation varies among countries, or even among PEs in one country. All of this makes cross-country comparisons exceedingly difficult. Given these problems, it is therefore legitimate to ask, what can be said with some degree of certainty about African PEs?

The first and inescapable summary point is that irrespective of data scarcities, and no matter what definition is used, the sub-Saharan African countries as a whole possess a large number of PEs. (Wherever possible data have been adjusted to fit the paper's definition of a PE.) As noted, data from thirty countries estimate a total number of financial and nonfinancial PEs at just about 3,000 (see Table 1). The actual total must be considerably higher, since several of the countries for which no summary figures are available are those with heavily interventionist economic policies - Angola, Burkina Faso, Guinea Bissau, Mozambique and Zimbabwe, for example. There is of course a wide variation in the numbers among countries and degree of state ownership, as Figure 1 shows.

State-owned enterprises dominate the economies of many African countries. Worldwide, PEs are responsible for about 10 percent of gross domestic product (GDP) on average in both developed and developing countries (World Bank, WDR 1983). In contrast, the figure is much higher in some African countries, as Figure 2 shows. Moreover, these figures understate the importance of PEs in the modern sector of many sub-Saharan African economies. For example, PEs account for over 90% of manufacturing

Table 1

SUBSAHARAN AFRICA:
NUMBER OF PEs

COUNTRY	YEAR	NUMBER OF PEs	OF WHICH 100% STATE OWNED	% WHOLY STATE OWNED
BENIN	1982	60		
BOTSWANA	1978	9		
BURUNDI	1984	51		
CAMEROON	1980	50		
COMOROS	1982	10		
CONGO	1982	75 <u>a/</u>	70	93.3%
ETHIOPIA	1984	180		
GHANA	1984	130	100	76.9%
GUINEA	1980	181		
IVORY COAST	1978	147	23	15.6%
KENYA	1982	176	47	26.7%
LESOTHO	1978	7		
LIBERIA	1980	22 <u>a/</u>	20	90.9%
MADAGASCAR	1979	136	45	33.1%
MALAWI	1977	101		
MALI	1984	52	40	76.9%
MAURITAN.	1983	112	81	72.3%
NIGER	1984	54		
NIGERIA	1981	107	36	33.6%
RWANDA	1981	38	16	42.1%
SENEGAL	1983	188		
S. LEONE	1984	26	12	46.2%
SOMALIA	1979	44		
SUDAN	1984	138 <u>a/</u>		
SWAZILAND	1978	10		
TANZANIA	1981	400		
TOGO	1984	73		
UGANDA	1985	130		
ZAIRE	1981	138	54	39.1%
ZAMBIA	1980	114	65	57.0%
TOTAL		2959		

a/ Excludes financial enterprises

Source: World Bank files

Figure 1
SUBSAHARAN AFRICA
NUMBER OF PES

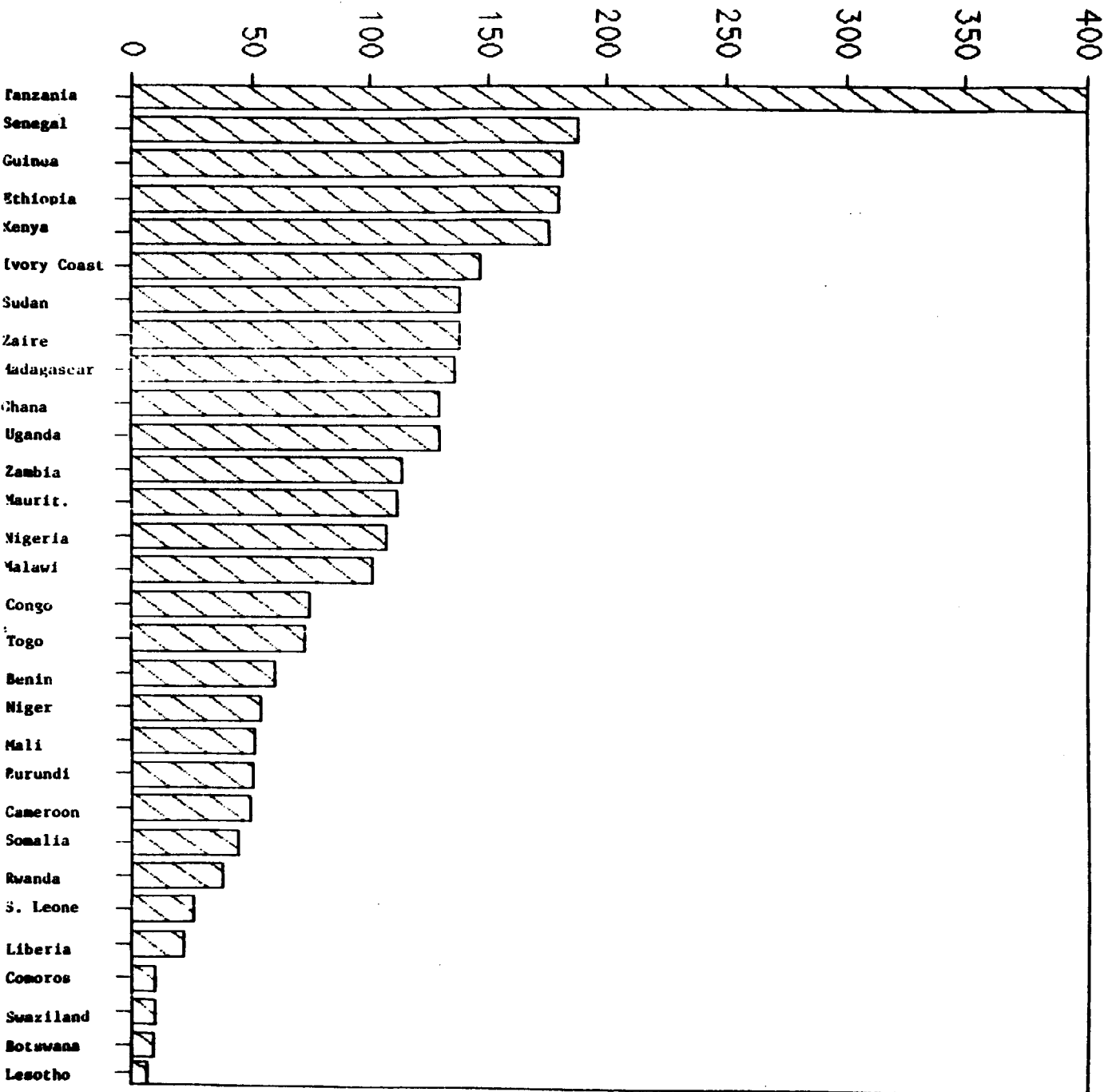
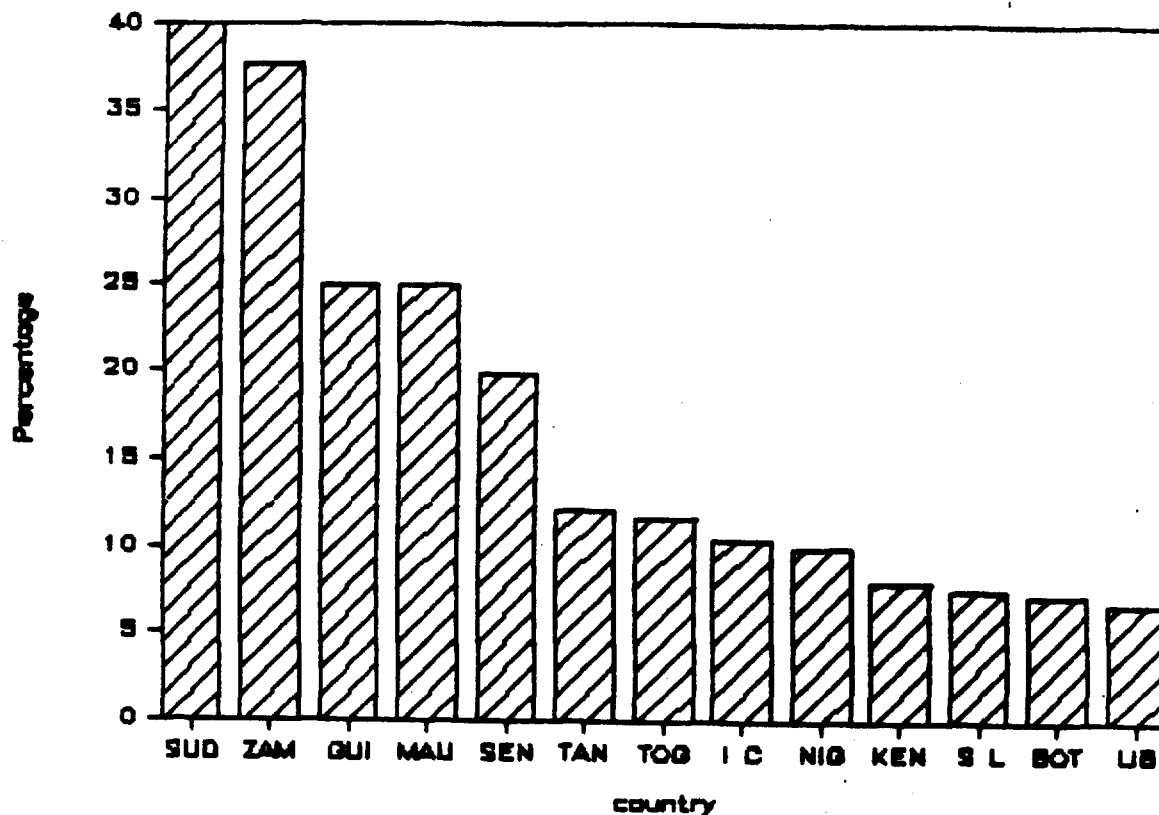


Figure 2

PE SHARE OF GDP



SHARE IN GDP AT FACTOR COST

COUNTRY	CODE	YEAR	% <u>a/</u>
Sudan	SUD	1975	40.0
Zambia	ZAM	1979-80	37.8
Guinea	GUI	1979	25.0 <u>b/</u>
Mauritania	MAU	1984	25.0
Senegal	SEN	1974	19.9 <u>b/</u>
Tanzania	TAN	1974-77	12.3
Togo	TOG	1980	11.8
Ivory Coast	I C	1979	10.5
Niger	NIG	1984	10.0
Kenya	KEN	1970-73	8.1
Sierra Leone	S L	1979	7.6
Botswana	BOT	1978-79	7.3 <u>b/</u>
Liberia	LIB	1977	6.8

a/ Weighted average

b/ GDP at market prices

Source: World Bank files

value added in Ethiopia, almost 80% in Somalia, over 50% in Zambia, and 40% in Cameroon. Furthermore, PEs produce and market major foodstuffs and exports and make up a large part of investment in several countries (see Figure 3).

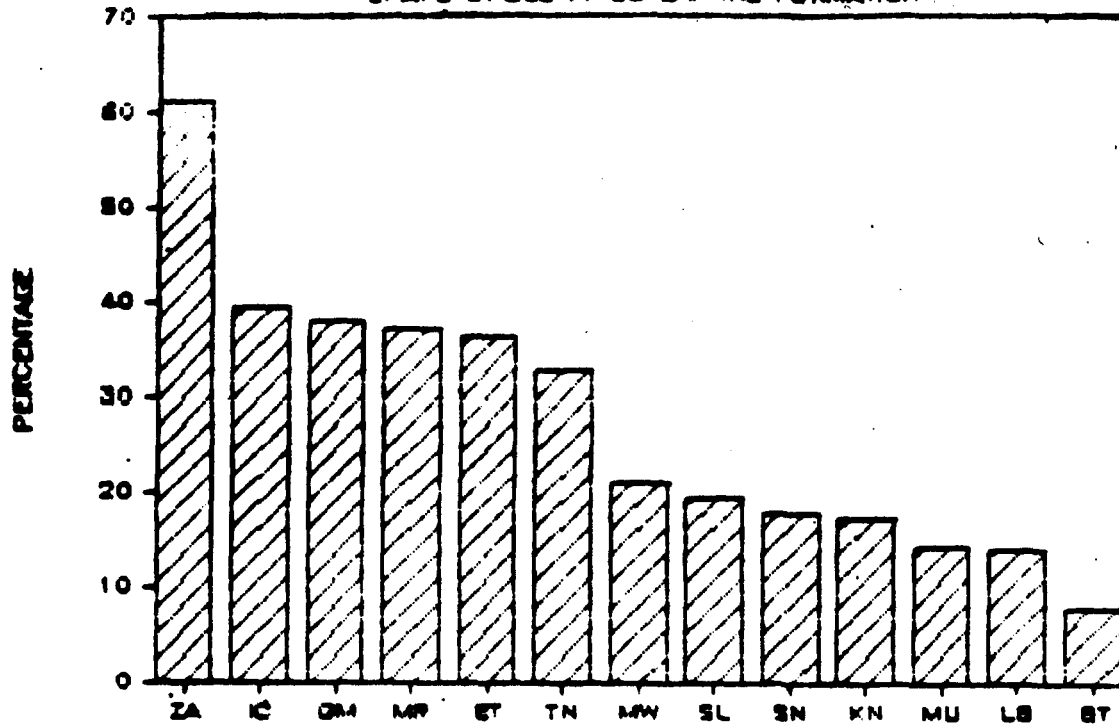
State enterprises are typically capital intensive in production and hence are usually not a major source of employment. Nevertheless, they are relatively more important employers in sub-Saharan African countries than elsewhere (see Table 2). And in some sub-Saharan African countries the PE contribution to formal sector employment is very high. For example, PEs were responsible for 75 percent of modern sector employment in Guinea (1981; the post-1984 government has launched a major program of reducing the PE sector), 58 percent in Niger (1981), and 40 percent in Burundi (1980). In those nine countries reporting on PE employees over time, all save Liberia show increases, sometimes extremely substantial increases, such as in Kenya and Tanzania.^{1/} (It should be noted that much of the data on African PEs dates from the late 1970s and early 1980s, and it is quite likely that budgetary crises, and stabilization and adjustment programs undertaken in the last four or five years have changed the picture somewhat.)

PEs are important borrowers, both domestically and internationally. They dominate domestic capital markets in some countries, as shown in Figure 4. Their borrowing is often in greater proportion than

^{1/} Benin, Botswana, Ghana, Guinea, Kenya, Liberia, Swaziland, Tanzania, Zambia.

Figure 3

SUBSAHARAN AFRICA PEs
SHARE GROSS FIXED CAPITAL FORMATION



SHARE IN GROSS FIXED CAPITAL FORMATION

COUNTRY	CODE	YEAR	SOE % GFCF ^{a/}
ZAMBIA	ZA	73-80	61.2
IVORY COAST	IC	1973	39.5
GAMBIA	GM	78-80	37.9
MAURITAN.	MR	78-79	37.2
ETHIOPIA	ET	78-80	36.5
TANZANIA	TH	70-80	32.7
MALAWI	MW	1978	21.2
S. LEONE	SL	1979	19.6
SENEGAL	SN	1974	17.9
KENYA	KN	78-79	17.3
MAURITIUS	MU	77-79	14.4
LIBERIA	LB	74-76	14.1
BOTSWANA	BT	78-79	7.7

a/ Weighted averages

Sources: Peter Short, "Appraising the Role of Public Enterprises, An International Comparison," IMF Occasional Paper, Washington, D.C., 1983; and Economic Research Bureau, "Role of the Public Sector in the Economic Development of Tanzania. Dar es Salaam, January, 1984.

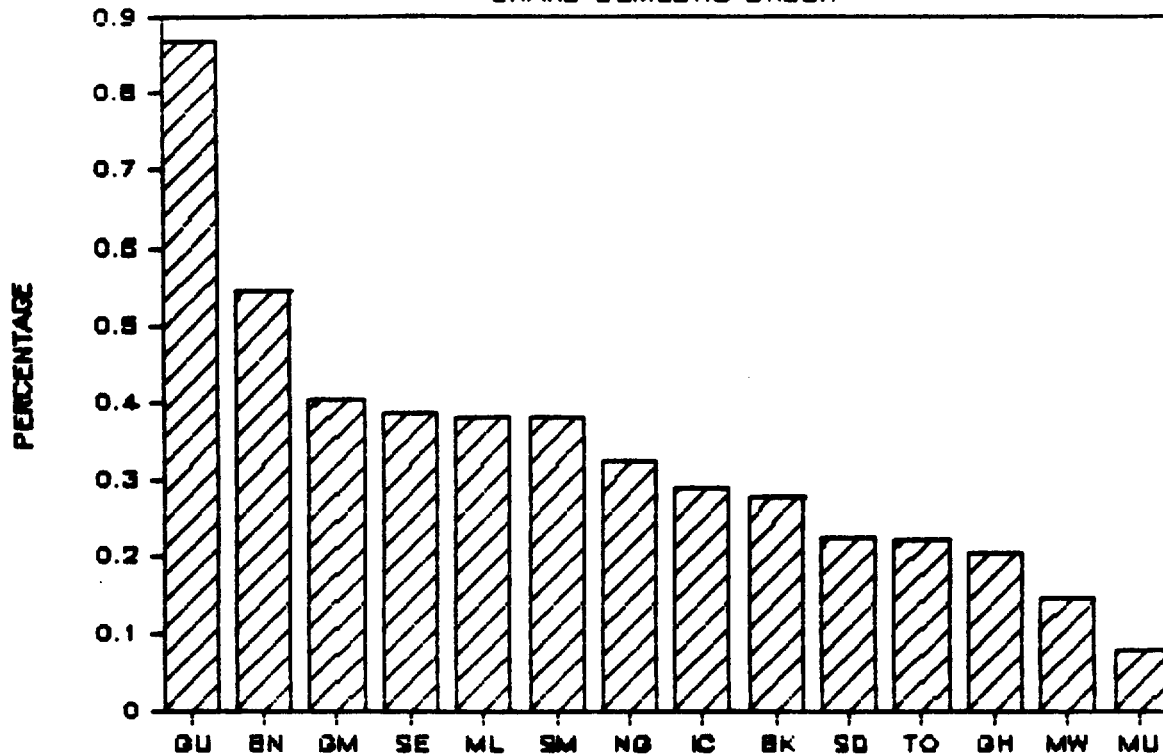
Table 2

Table 4 Nonfinancial PEs' Share of Nonagricultural Employment

	OECD	Developing Countries			
	Countries	Total	Africa	Asia	Latin America N. Africa
Average share (%)	4.1	13.9	18.7	15.7	5.5...10.3
Number of countries	14	18	8	4	5.....1

Source: Peter Heller and Allen Tait, "Government Employment and Pay: Some International Comparisons." IMF Occasional Paper series.

Figure 4
SUBSAHARAN AFRICA PE_s
 SHARE DOMESTIC CREDIT



SUBSAHARAN AFRICAN PE_s:
 SHARE OF DOMESTIC CREDIT

COUNTRY	YEAR	PERCENT SHARE ^{a/}
GUINEA	1978-80	87.1%
BENIN	1978-80	54.3%
GAMBIA	1978-81	40.5%
SENEGAL	1978	38.7%
MALI	1978	37.9%
SOMALIA	1978-81	37.9%
NIGER	1978-80	32.4%
IVORY COAST	1978-79	29.0%
BURKINA	1978	27.8%
SUDAN	1978-81	22.5%
TOGO	1978-79	22.4%
GHANA	1978-80	20.7%
MALAWI	1978-81	14.7%
MAURITAN.	1978-80	7.9%

^{a/} At end period. When more than one year is given, weighted average of end period data.

Source: Peter Short, 1983

their economic share, which leads to crowding out of other borrowers. Furthermore, on the basis of admittedly limited data for a very few countries, one can assert that PE external debt is a significant factor in the growing foreign debt of sub-Saharan African countries.

The sectoral distribution of PE's value added in reporting sub-Saharan African countries is similar to that found in other developed and developing countries. Thus, electricity, gas and water are provided mainly by PEs, and they play a significant role in transport and communications. They produce an insignificant share of agricultural output (although they often dominate agricultural markets and processing), and are responsible for less than 25% - or even less than 5% in some countries - of value added in commerce and construction. In mining and manufacturing, the pattern varies considerably from country to country, which is in line with figures reported from other regions of the world.

III. Rationale for Public Enterprises

Why is it that African states came to rely so heavily on PEs in their development strategies? The reasons are many. First, at independence most African states inherited the notion that extensive government involvement in the economy and society was the natural order of affairs. Colonial governments, especially in the period 1945-60, had created economic planning bodies, agricultural marketing boards, instituted wage and price controls, started industrial parastatal enterprises; and had generally never hesitated to interfere in many socio-economic spheres untouched by government in the metropole. The point is that most of the

national elites which came to power in the 1960s were thoroughly accustomed to legally strong, hierarchically organized and centralized, and economically intrusive governing systems.

To the predisposing heritage was added the factors of obvious need and prevailing ideology. In many African countries, most of what commercial agricultural and manufacturing base existed was in the hands of aliens, either from the metropole, the Near East or Asia. This created deep resentment and sparked calls for controls and nationalizations. In many countries across the region, one often encountered - and still encounters - attitudes which cannot be termed expressions of a coherent socialist position, but which nonetheless reveal a strong strain of anti-capitalism, a pronounced mistrust of the market and the profit motive. Elsewhere, the association of colonialism with imperialism and exploitation, the post-war ascendancy of a leftist intellectual climate, the support for independence which had come from socialist movements and governments, and the seeming success stories offered by socialist models in terms of political unification and rapid industrialization were but some of the factors which, taken cumulatively, led many newly independent African governments to espouse formally one form or another of socialism. At least sixteen sub-Saharan African countries, either at present or at some point in the past, have claimed to be socialist, or on the path of transition to socialism, or to be using basically socialist approaches to development (Angola, Benin, Burkina Faso, Congo, Ethiopia, Ghana, Guinea-Bissau, Guinea, Madagascar, Mali, Mozambique, Senegal, Sudan, Tanzania, Zambia and Zimbabwe.) In some the socialist option has been discarded or heavily modified; in others socialism - either humanitarian or scientific - remains as the official approach to development.

One policy result of the mixture of stimulants outlined above were several outright nationalizations of key economic sectors in alien hands, for instance, in Tanzania, Zambia, Ethiopia and the Sudan. In Tanzania, the nationalizations of enterprises and agricultural estates in 1967 were designed to "ensure the proper management of the commanding heights" of the economy, "to transform the economy by articulating the principles of socialism and self-reliance," and to promote equity, improve income distribution and stimulate equitable regional development. (Msambichaka and Bagachwa, 1984:384).

In other African countries ideology has played a more muted role. For example, PE sectors have often been viewed as essential to replace a non-existent or alien private sector; or to stimulate and incite a weak or small national private sector; or to attempt to transfer technology absent in the local private sector in fields regarded as "strategic," such as communications, transport, or certain branches of heavy industry. Further, PEs were thought to be able to fill an "entrepreneurial gap," and gain access to international concessionary and commercial credit that would be denied to small local entrepreneurs possessing limited assets. A further hope of African planners was that PEs would utilize more appropriate, less capital-intensive technologies.

One can readily understand the circumstances that gave rise to such reasoning, as it is obviously the case that private sectors in sub-Saharan Africa were (and often continue to be) quite weak; local capital markets are undeveloped or non-existent and local businessmen still

often are traders, brokers and small or medium-size merchants, not investors or industrial entrepreneurs. African planners thus argue that public enterprises are, or should be, useful in providing experience to technicians and specialized administrators who undergo an invaluable apprenticeship, unobtainable elsewhere in their economies. They justify the existence of the PE sector, and frequently go further and excuse its often mediocre economic performance, for reasons relating to market imperfections, and to perceived shortcomings in indigenous private sectors, combined with a fear of returning to a dependent or neo-colonial status if they rely heavily on the foreign private sector.

Another set of arguments for PEs are related to savings and investment issues. Much of this reasoning has been based on plausible assumptions which subsequent experience has often failed to validate. Nonetheless, the reasoning continues to be appealing in good part because it seems to offer economic support to what African governments are strongly predisposed to do for basically social and political reasons. For example, it has been hypothesized that PEs will raise aggregate levels of savings and investment, because - it is thought - the indigenous or foreign private sector either will consume wastefully or remit abroad resources which governments could direct to the expansion of the economy. Thus, PEs have been formed not simply for the negative reason that there is no alternative, but also due to their supposed capacity to generate higher investment ratios. Along the same lines, it is reasoned that PEs can aid the composition of investment, by giving government the power to direct investment to priority areas determined by planners, rather than in the production of non-priority items that a free market might produce. Though

it has for some time been evident in most African countries that the hoped-for investment effects were not occurring, there has been a tendency to continue the experiment on the grounds that it needed more time to prove itself. Increasingly, however, the questions arise: how long must and should one wait for the policy to produce beneficial results?

This brief discussion does not at all exhaust the reasons for which African public enterprises have been created and sustained. To review rapidly some others, PEs often have been created to avoid the consequences of or simply prevent private business failures, to promote national security considerations or offset the power and market-share of multinationals. Many political leaders have supported PEs, and been most reluctant to accept criticism of their performance, for they provide jobs for loyal supporters, and well-paying management posts for a variety of personalities, from retiring army officers to departing cabinet ministers for whom something suitable must be found. The PE sectors offer African political leaders a key employment mechanism to reward followers and defuse or forestall discontent.

Another justification for African public sector expansion seldom officially discussed in policy documents, is the often-made assumption by African leaders and populations alike that only rigorous control, backed by the power of the state can - sometimes - prevent theft, fraud and corruption. While every state and every public sector in the world probably contains examples of fraudulent practice, it is widely believed that the degree and intensity of corruption is, on average, higher in sub-Saharan African countries than elsewhere. There is little comparative

evidence to prove or disprove this belief. Nonetheless, the belief persists. And a logical implication of the belief is that only the state has the resources and authority to even attempt to restrain excessive and unwarranted acquisition. An additional reason for the creation of public enterprises - especially rural development authorities or entities managing major projects - has been the insistence of the international donor community that autonomous implementing bodies be created to manage donor-financed activities. This is prompted by the lack of confidence in the normal line agencies of the civil service. Countries relying heavily on official aid have a fair number of PEs of this type.

Thus, for historical, economic, social and political reasons almost every African state has created a large public enterprise sector.

IV. Performance of Public Enterprises

How have African public enterprises performed? The general view is that they have yielded a very low rate of return on the large amount of resources invested in them. While no aggregate figures on PE performance are available for the region as a whole, limited data from individual countries and sub-regional groupings reveal reason for concern. Of the PEs in a sample drawn from twelve West African countries, 62% showed net losses, while 36% had negative net worth. (Bovet, 1985) In a 1986 study of 16 major Kenyan agricultural PEs, aggregate before - tax losses for the years 1977-1984 totalled 2.934 billion K shs, or \$183.4 million at the 1986 exchange rates. (Grosh, 1986: 18-19) By Kenyan Government estimates, over \$1.4 billion (U.S.) had been invested in all Kenyan PEs by the early 1980s,

yielding an annual average rate of return of 0.2%. The overall performance of PEs is so poor that even those African governments most philosophically committed to socialist principles are now openly voicing concern. For example, the Tanzanian Commissioner for Public Investment said in late 1984 that the "public enterprise sector in Tanzania has been in existence for almost 19 years, but the performance has been disappointing..." (Mkulo, 1985:189) The assessments of other African governments have been even more harsh. A Kenyan report in 1982 stated:

First, experience suggests that many of these commercial investments would be more productive, better managed and more profitable in the hands of private owners. ... Second, troubled investments have required an inordinate amount of the time of government administrators, managers and policymakers, hence diverting their attention from the more basic development needs of the nation. Third, many of the initial reasons for these investments have been satisfied or are of lesser importance under present circumstances. (quoted in Shirley, 1983:56)

Across the continent, public enterprises have either performed poorly, as measured by standard financial/economic criteria, or not as well as it seems reasonable to think they should have. Moreover, there is very little evidence to show that they have produced the anticipated levels of non-financial benefits in such areas as employment generation, income distribution, technology transfer and contributions to regional equity. In several countries claiming positive results in these non-financial terms, there has been little or no assessment of the costs involved in producing such results, and no consideration of whether similar or better results were obtainable by other, lower cost methods.

Available data show that earnings from PEs are low, that many run losses, and that in some countries PE deficits have reached large proportions. In Niger for example, the cumulative total of deficits for twenty three loss-making enterprises, as of 1983, had surpassed 40 billion francs CFA - close to \$90 million at present exchange rates and considerably more at 1983 rates. Even after deducting the surpluses of some fifteen non-deficit PEs, the net deficits of the studied PEs surpass 29 billion francs CFA (\$65 million at 1985 exchange rates), or roughly 4% of Niger's 1982 GDP. In Tanzania, between 1976 and 1979, one third of all PEs ran losses (Msambichaka and Bagachwa, 1984:390); it is highly unlikely that the situation has improved in the 1980s. In Benin, more than 60% of all PEs show net losses; more than three quarters have debt/equity ratios greater than 5 to 1, close to half have negative net worth, and more than half show negative net working capital.

The PE performance situation is equally distressing in many other countries. Cumulative PE losses in Mali reached 6% of GDP by the end of the 1970s; a 1980 study of eight Togolese PEs revealed that their losses alone equalled 4% of GDP (leading one to think that the losses as a percentage of GDP figures given in other countries might be severely underestimated); half of a sample of 39 industrial PEs in Madagascar ran substantial losses in the period 1981-83; and reports from the Sudan, Nigeria, Mauritania, Zaire, Sierra Leone and Senegal reveal, at best, heavy losses in many PEs in the periods studied, and suggest, at worst, permanently loss-making PE sectors in these countries.

A 1985 World Bank report on transport sector public enterprises in 18 francophone African countries estimated that only 20% of PEs in the sub-sector generated revenue sufficient to cover operating costs, depreciation and financial charges; 20% covered operating costs plus depreciation; 40% scarcely made enough revenue to covering operating costs and a final 20% were far from covering operating costs. (Institut de developpement economique, 1985: 36-7).

One must exercise particular care and caution in interpreting financial data, since differences in accounting and tax systems, methods of funding, and the treatment of depreciation, inflation, subsidies and interest payments result in profit and loss statements which are simply not comparable. Of course, the very notion of profits and losses is itself a questionable evaluator of PE performance. On the one hand, PEs in a monopoly position can be extremely inefficient but very profitable; on the other hand, an efficient, cost-minimizing firm may show losses if its output prices are kept artificially low by government decree, or if it is obliged to fulfill non-commercial objectives which cannot be achieved profitably. The point is that while profits and losses are necessary and powerful indicators of PE financial performance, they do not always or fully reveal an accurate picture of PEs. (Section VI returns to this theme.) Price controls, subsidies, overt or hidden transfers - these activities are common in most African countries; all serve to distort the incentive structure, and to make precise performance evaluation difficult.

V. Analysis of Performance

This does not prevent one from perceiving some general trends. For example, it is clear that pricing policies have had a powerful and generally negative effect on African PE performance. Many sub-Saharan countries have a regime of controlled prices. Price controls have seldom been adjusted to keep pace with rising costs; indeed, in most countries market and profit calculations have taken a decided second place to socio-political considerations. Control of PE prices for both the materials they buy and the products or services they sell, has led to great inefficiencies in resource allocation, contributed to large operating losses, reduced financial responsibility and accountability, and has increased the dependence of PEs on government subsidies. Aggregate data to illustrate these generalizations are not readily available; one must rely on a second-best method of amassing individual examples. In Benin, as an example, government kept the retail price of cement low, while prices of essential imported production materials rose rapidly. The result was an annual loss of 1 billion francs CFA by the two cement factories, up to the end of 1982; in plants judged to be reasonably efficient. In Niger and Madagascar, PEs in grain marketing and foodstuff trading have been required to sell commodities well below the efficiency price and, often, below the cost of production. In Niger, these significant losses are not subsidized; in Madagascar, PEs are supposed to receive compensation for loss-making socially-priced items from an equalization fund - but such subsidies are only rarely forthcoming. In Sierra Leone, a transport PE requested a raise in fares in 1974; government approval of the request was given five years later. A second request in 1981 was approved in 1983. Though the two increases were eventually approved they did not match cost increases; Sierra Leone's annual average rate of inflation in this period was 12.2%.

Inappropriate investment decisions are another major contributor to poor PE performance. Some African PEs have been established without sufficient reflection, with unclear objectives and few linkages to the rest of the economy. Inadequate appraisal processes, especially weak or non-existent economic and financial feasibility studies, have led to the creation of PEs which the most minimal of study would have recommended against. In Somalia, in 1976, a plant to box banana exports had a breakeven production level which was greater than national banana production; i.e., if the factory boxed all marketed Somali bananas it would still have run at a loss and would have had non-utilized capacity. Clearly, planners were hoping for increased banana production and exports, but these did not take place; by 1982 the factory was operating at 25% of capacity. This problem of underutilized capacity is extremely common in African PEs; it is difficult to find examples of firms working at anything close to originally planned output. This is an obvious and acute misallocation of resources.

An additional and common problem is that public enterprise plants in just about every African country have been located because of political/regional considerations, despite the added costs and distorted allocations such sitings caused.

In several African instances, PE investment decisions have been either excessively ambitious, or predicated on the maintenance of historically high prices for the commodity to be produced, or were excessively reliant on uncontrollable external factors. Niger's uranium producing PE, set up during the short-lived commodity boom of the 1970s,

had accumulated by 1983 operating losses equivalent to 10% of the massive total investment. The overriding reason was the collapse in the world price of uranium, which by the 1980s had fallen below the cost of Nigerian production. In Benin, an efficient and long profitable textile PE suffered a reversal in 1983, when its major export market in Nigeria was suddenly closed off. Nigeria's decision to close its border to printed textile imports was, of course, outside the control of either enterprise management or the Government of Benin. Market conditions changed and made the operation unprofitable. This is the nature of commercial operations; it happens everywhere and constantly, and is not - despite the use of strategic planning and sophisticated marketing analysis techniques - always predictable. What is important is that the Government of Benin could not respond rapidly to altered market conditions. It could not find a substitute market (indeed, perhaps there wasn't one); more importantly, it could not quickly reduce the firm's workforce nor sell or close the firm. Whereas a private firm might have taken steps to cut losses (even drastic steps such as lay-offs or liquidation), the PE was obliged to continue on in much the same manner, and hope that the Nigerian border would be re-opened to its products. The result was a continuing stream of losses.

African PEs have largely failed to generate internally a sufficient amount of working capital; they have demonstrated a limited ability to finance new or replacement investments, or even maintain existing investments. They have moved from being a burden on the budget to a state of being a burden on domestic banking systems. This is particularly true of African countries in the franc zone. For example, in a sample of seven countries in the West African Monetary Union, PEs account

on average for 36.7% of all domestic credit, while in six non-monetary Union countries the average is a more modest 16.9% (Bovet: 1985, 3). In Senegal, PEs accounted for 49.4% of all bank credit in 1982, and 56% of short-term credit. In the same year, 82% of the Senegalese banking sector's total outstanding debt was tied up in PEs--which taken as a group accounted for 1% of all bank deposits (Gouadain et Lécointre: 1984, 302-3). The situation is similar in Mali and Madagascar, and is tending in this direction in many other countries.

The picture of African PE performance is not unrelievedly negative. In some countries the bulk of the losses in PE sectors can be traced back to one or a small number of grossly inefficient firms. This means that many individual African PEs (though few PE sectors) are running at a profit. Data are not sufficient to establish regional or much of a sectoral pattern, but some information is available. In Sierra Leone, production and financial enterprises have shown much higher returns to capital than service enterprises, and it seems reasonable to think that this is the pattern elsewhere. In Ethiopia, the industrial PE sub-sector showed sustained and substantial net profits from 1979 to 1982. (On the other hand, agricultural sector PEs are almost universally criticized as especially poor performers, though there is some evidence that cotton producing PEs organized on the French CFDT model are an exception). With the proper mix of macro-economic policies and internal management arrangements, African PEs can be well-run, and produce significant benefits for the country. Malawi's Agriculture Development and Marketing Corporation, the Tanzania Investment Bank, and the Palminindustrie Corporation in the Ivory Coast are all examples of PEs which previously

were in great difficulties and which were turned around by restructuring efforts. (Still, it must be noted that in a number of countries, even when the returns to capital invested in PEs have been positive they would be minimal if assets were adjusted for inflation. For example, Ghanaian industrial PEs returned 17.8% on invested capital over a studied period, compared to the prevailing inflation rate of 96%.)

Successful African Public Enterprises

Thus, there are a number of well-managed, profitable public enterprises in sub-Saharan Africa. Some of these are very well known, their success having been identified and analyzed at length. In addition to those named above, the Kenya Tea Development Authority, the Botswana Meat Commission, Tanesco (Tanzania's electricity company), and the Ethiopian Telecommunications Authority have previously been singled out as efficient, effective and profitable organizations. To this list, one can add two more recent, if modest successes from widely separated (literally and figuratively) systems: Madagascar and Sierra Leone.

HASYMA - The Cotton Development Authority of Madagascar

a) HASYMA is Madagascar's cotton development agency. It accounts for the bulk of all profits reported by agricultural parastatals in recent years. HASYMA, previously owned and run by CFDT-France, was partially nationalized in 1979, with the Government owning 70% of HASYMA's equity and CFDT the remaining 30%. The agency's main functions include provision of extension services, inputs, and agricultural credit to cotton farmers,

organization of the cotton marketing campaign, and operation of ginning facilities throughout Madagascar; HASYMA also manages several cotton farms for direct production. The company is staffed and managed by national staff (500 in all, this number has not changed for three years), and two or three CFDT consultants provide assistance and advice as requested by HASYMA management.

b) HASYMA's organization follows a simple line structure. The company is organized into two functional departments, four support units and two regional offices, the responsibilities and authority of which are well defined. The company has substantial autonomy in its decisions for the development of the cotton sub-sector. It maintains close relations and frequently consults with the Ministry of Agricultural Production and Agrarian Reform on technical matters, and the Ministry of Industry and Commerce on pricing and marketing. Observers note a lack of interference from the ministries.

c) HASYMA's financial position weakened in the early 1980s due primarily to low official prices. Still, its performance has been good in comparison with other agricultural parastatals in Madagascar, and a sound producer price policy since 1983 has improved the enterprise's finances. A number of other factors account for its good performance. First, HASYMA's objectives are simple and clear to both staff and management. Second, HASYMA's staff is outstanding - its Managing Director was recruited from the private sector and is a dynamic manager; company staff are well-trained and highly motivated; the company has managed to attract and retain qualified staff by providing high salaries, substantial fringe

benefits and opportunities for career development; and HASYMA staff and managers keep abreast of technical developments in their field and with world trends in cotton production and processing.

d) Third, HASYMA management has given particular attention to controlling costs and to maintaining the company's profitability. Close tabs are kept on transport and ginning costs and management plans ways to reorganize these services in order to reduce costs. Moreover, as part of its drive to run a commercially viable operation, HASYMA management prepares cash flow calculations on the basis of different production and price structure scenarios, and uses these for corporate planning strategy and for discussions with Ministry officials. This approach was and is now again successful in obtaining Government approval for an industry price structure which assures HASYMA of sufficient margins to cover its service functions as well as to show a profit on its commercial operations.

e) Finally, HASYMA has been one of the few, if not the only, agricultural parastatals to successfully recover farmer payments for inputs and services provided; this cost recovery has been facilitated by HASYMA's position as monopoly buyer of cotton, with payments due to HASYMA being deducted from crop payments to farmers. This discipline on the part of HASYMA and cotton farmers is exemplary in the Malagasy context, and reflects HASYMA management's commitment to controlling costs and maintaining commercial viability.

f) Although its experience is greater with commercial activities than with agricultural production, reflecting its origin as a private

marketing organization, technical assistance over the years has enabled the company to respond to the new emphasis on support to smallholder production. HASYMA has retained much of the professionalism of its CFDT forerunner and is considered as one of the most dynamic and well-managed of Madagascar's parastatals. It responds well to changing conditions; it is increasingly delegating responsibility for certain activities to the private sector; i.e., transport, land preparation, maintenance of agricultural machinery.

The Guma Valley Water Company of Sierra Leone

a) The Guma Valley Water Company (GVWC) supplies water to Sierra Leone's capital, Freetown. It is regarded as one of the best PEs in the country. Observers see technical problems as well under control, water delivery is adequate, safe and reliable, management is regarded as competent, and has both the confidence of the government and the loyalty of its staff. The company made a profit (before taxes) in both 1981 and 1982, the last two reported years.

b) GVWC management attributes much of the enterprise's success to a carefully constructed and maintained institutional setting. The company's enabling legislation is well drafted. Although wholly-owned by government, no member of the government or the civil service sits on its six-member Board of Directors. Indeed, the government nominates but two Board members, one of whom is from the Freetown City Council. Representatives from the Commonwealth Development Finance Company and the Commonwealth Development Fund sit as Directors. Observers have remarked on the

harmonious relations existing between management, the Board and the supervising Ministry of Energy and Power.

c) GVWC employs 384 people, of whom 13 are professional/managerial and 42 are clerical. Salaries are supplemented by annual bonuses; benefits include free medical and dental care, car allowances and loans for refrigerators. Occasionally the company guarantees housing loans. Inducements are quite good in the GVWC.

d) With regard to marketing and finances the company is doing fairly well. Twenty per cent of its average daily water production was unaccounted for and taken as losses in 1980; and revenue collection indicators slipped between 1980 and 1982. Nonetheless, net worth of the company increased by 142 per cent from 1979 to 1982. The value of sales in the same period increased much more than the rate of increase in water supply.

e) Not all aspects are promising. GVWC paid no dividends in the four years 1980-1983. Government owes the company Le 1 million; other PEs owe the firm Le 130,000. A loss was anticipated in 1983. Since the GVWC earns no foreign exchange it is dependent on government to meet its hard currency needs and foreign loans. From 1979-1982, the government guaranteed loans amounting to Le 28.8 million for the GVWC. Imported inputs in GVWC doubled in this period. This is worrisome.

f) Nonetheless and overall, GVWC is well-managed; it provides an essential service in a safe and reliable fashion, and has succeeded in

building up a competent and dedicated workforce. These are laudable achievements.

A similarly modest amount of good news is found in another problem area. Almost every African country has severe problems of overstaffing in public enterprises. In Congo, Ghana, Guinea, Liberia, Nigeria, Somalia and Tanzania (among others), official reports have underlined this issue. As an illustration, the Nigerian Railway Company has about twice the staff per traffic unit of other West African railways which, in turn, have about twice the staff per traffic unit of European railroads. While it is reasonable to assume that lower labor costs in Africa should normally lead to greater labor intensities, it is evident that all too often numbers of workers are unproductively excessive. One African Airport Authority had two eight-hour shifts of workers operating one regional airport which received a grand total of two flights a day. A World Bank study estimated that a West African agricultural marketing board had 3,000 positions in excess of reasonable requirements. In country after country, PE officials complain of being unable to suspend, fire or indeed sanction in any meaningful way their large and costly workforces. Nor do they possess discretionary power on salaries and benefits; they thus have neither sticks nor carrots.

Acute and costly problems of overstaffing at the lower levels of PEs coexist with scarcities of skilled labor and especially trained and experienced managerial personnel. PEs in Zimbabwe and Nigeria suffer from shortages of technicians and middle-management even in the most overstaffed organizations. Unified salary systems which equalize salaries and benefits

in PEs and the regular civil service have been instituted in several African countries, primarily to avoid loss of good people from the civil service due to higher PE wage scales. The creation of unified systems may have slowed the flow from the civil service to the PE sector, but it seems also to have increased the flow of competent managers from the PE to the private sector. Moreover, the tendency for governments to impose salary uniformity among PEs acts as a disincentive to good workers. There tends to be a relatively narrow range of remuneration between workers and management, and in many countries the salaries of PE managers have not been adjusted for a considerable time, and no longer serve as a sufficient incentive to attract competent individuals.

What is slightly encouraging in regard to labor issues is that a significant number of African countries have admitted the overstaffing problem and have begun to take steps to correct it. In Niger, several of the most blatantly overstaffed PEs have undergone workforce reductions of up to 25% in the past three years. "Survival Plans" in Sierra Leone have resulted in substantial staff reductions. Lay-offs in PEs are reported recently in Tanzania, Togo and Senegal and Nigeria. A Government commitment to implement a lay-off policy has been noted in Benin; and Mauritanian, Guinean and Malian authorities are also working on the same lines. That so many African governments are taking steps in such a politically sensitive field - public sector employment - indicates their realization of the serious economic situation of their PE sectors.

While some positive aspects of even the overstaffing issue can be uncovered, it would be very difficult to make the same claim for the issue

of liquidity and debt ratios. In case after case, one finds African PEs which are undercapitalized because of insufficient capital contributions on the creation of the firm, and through the erosion of the capital base by chronic losses and inflation. There has been a drying up of government transfers to the PEs because of budgetary restrictions, and increasing accounts receivable. This has led PEs to rely increasingly on commercial borrowing to finance new investments and even operations, and to a buildup of arrears. Historically high interest and U.S. dollar exchange rates have caused severe financial problems for PEs relying more and more on commercial borrowing. In Somalia, for instance, manufacturing PE's interest charges amount to close to 50% of their losses. Because most African governments guarantee PE debts (and even when they are not officially guaranteed there is often a tacit assumption of an "unofficial" guarantee) and because management is not held accountable for these loans, many enterprises have overborrowed and been imprudent in their use of money. In far too many African cases this has led to high debt-equity ratios, increased arrears to banks and suppliers, and virtual paralysis of operations.

In Benin, for example, the majority of PEs have a debt-equity ratio exceeding 5:1. Out of a sample of 30 PEs, only 20% have debt-equity ratios below 2:1, and 50% have ratios that are above 10:1. In Togo, data on six key public enterprises indicate that in 1980 they were seriously undercapitalized, with a debt-equity ratio of 8:3. Furthermore, four PEs had indefinite ratios because they had negative net capital positions.

In the Sudan, a huge amount of net working capital is tied up in receivables and inventories. The equity of many corporations has shrunk because of large operating losses. Fixed assets have increased only slightly as most of the resource increases have gone to finance current assets. High debt-equity ratios are also true of enterprises in Sierra Leone, Zambia, Madagascar and Nigeria. Many African PEs have proven incapable of servicing the debts they have generated; in Zaire the state has assumed responsibility for \$1.3 billion of PE debts - an enormous but hidden subsidy.

PEs in most of Sub-Saharan Africa are desperately short of liquidity because they are often not paid or paid very late for their products or services. Partly as a result of the fact that few government bills are paid on time, many African PEs have in turn stopped paying taxes and have stopped paying each other. For example, as of 1983, the central government and municipalities in Senegal owed CFA francs 6 billion to the national water company, SONEES, a sum roughly equivalent to SONEES' total turnover in 1983. However, tax payments withheld by SONEES offset the arrears. As elsewhere in the region, the Senegalese government's inability to provide subsidies led PEs to finance their deficits with commercial bank overdrafts and government-guaranteed short and medium-term credits. Such financing resulted in high financial charges and in the case of the housing construction PE, interest charges in 1982 equalled half of its turnover. (African Governments' reluctance to provide a flow of subsidies to continuously loss-making PEs is understandable. But in some few cases it is clear that had the PEs been adequately capitalized to start with, or had they received from Government promised injections of working capital, then the firms could probably have operated in a profitable manner.)

PEs in Togo are also saddled with large accounts receivable. For eight enterprises these amounted to nearly five months of sales in 1980, while liquid assets covered only two weeks of operating costs. In attempts to mobilize or retain liquidity to pay at least personnel, large short-term debts were incurred. This story has been repeated across Africa, from Mali to Kenya.

High rates of taxation on profits and government requirements to transfer a large portion of post-tax profits to its budget have often led to reduced funds for reinvestment, forcing additional borrowings, and causing cash-flow problems and reducing PE incentives to generate profits. For instance, in Mali, 90% of post-tax profits, in those few instances where profits are made, have to be transferred to the government budget. (On the other hand, it must be noted that many African PEs receive various forms of tax exemptions and are nonetheless unable to earn profits or even amounts sufficient to cover their operating costs.) In Niger, any accumulated surplus of the major development bank has often been reallocated at the discretion of the government as subsidies to poorly performing enterprises.

It is thus apparent that African public enterprises are not meeting the expectations of planners and leaders. There are some special - that is, special to Africa - circumstances and reasons which account for this inadequate performance; these are discussed below.

But there are also several determinants of poor performance which are general and which apply to almost all PEs, whatever the culture, region or economic system in which they are found. These general problems are: unclear and contradictory objectives; excessive political interference in issues and decisions that should - from an efficiency standpoint - be taken by enterprise managers or Boards of Directors; overly frequent rotation of managers, both because good PE managers are in high demand and in short supply because of lack of incentives, and because incompetent managers are rarely fired but frequently transferred; the incompatibility of civil service procedures with commercial operations; and the pervasive and negative effects on PE efficiency of the lack of competition. These issues have been analyzed elsewhere (Shirley, 1983; Jones, 1982); it is sufficient to summarize rapidly the reasoning of previous studies and to stress that there is worldwide a reluctance on the part of governments to admit that some enterprises are beyond repair, and to liquidate them.

African PEs exhibit all the problems noted above. There is no African country in which PEs are not required to meet non-commercial or social objectives. Indeed, this is perfectly legitimate. But in those many cases where governments do not clearly rank a PE's goals according to priority, and do not make any attempt to assess systematically the social costs and benefits of non-commercial operations, then the enterprise manager is led to attempt to meet all objectives at once - a situation which strains scarce resources and usually results in confusion and poor performance.

Africa is also no exception to the universal finding that politicians interfere, often and arbitrarily, in low level PE managerial decisions; i.e., specifying who should be hired, who cannot be fired, where contracts must be awarded, who should receive credit, what bills should be paid and which can safely be ignored, and where services will be provided - and maintained, despite insufficient revenues. The acutely negative effects on PE performance of these and many other acts of political interference are quite well known.

Another worldwide problem is the short supply of good PE managers. Pay scales are generally higher in the private sector, and managers there have more freedom to pursue more clearly defined and thus more easily attained objectives. Everywhere, managers of public enterprises complain of having to cope with excessive, rigid, time-consuming and inappropriate bureaucratic procedures, which hinder the efficient and profitable running of firms. And finally, around the world many public enterprises are monopolies, which means they are not subject to the efficiency-enhancing pressure of competition.

While these problems are common to PEs everywhere, the intensity of at least some is greater in sub-Saharan Africa than elsewhere. For example, the scarcity of experienced managers is absolutely greater in Africa than in the Middle East, Asia or Latin America, reflecting both the poor human resource base inherited at independence, and the appointment policies followed by a number of governments, which have stressed political loyalty over operational skills. Poor pay for managers is frequently cited as an impediment to recruitment and performance, for example in Ghana,

Benin and Guinea. Not surprisingly in a region as vast as Africa, this is not always the case. In Sierra Leone pay policies are judged to be conducive to attracting and retaining qualified people. In a large number of other countries PE salary scales are appreciably higher than those for the civil service. But in an increasing number of African countries, public sector wage freezes necessitated by economic crisis have led to erosion of purchasing power and living standards for PE managers and civil servants alike. As an illustration, Ethiopian public sector wages, in all sections and at all levels, have been frozen since 1974; those in Zimbabwe since 1981.

Immediately after independence the civil service was the preferred employer for most trained Africans. In the 1970s the advantages of the PE sector - higher pay, supposedly less red-tape, supposedly greater freedom of managerial maneuver - made PE employment highly desirable. In the 1980s the erosion of PE wages and increasing criticism of PE performance contributed to a loss of managers to the private sector.

Across the continent, in anglophone and francophone countries alike, there has been a maintenance and indeed a strengthening of the inherited administrative structures and managerial attitudes. These are highly formalistic and legalistic. This legacy is especially apparent in francophone Africa. The most obvious effect of these rigid, formal structures, and the attitudes of close, rigorous supervision and surveillance which accompany the structures, has been that government PE controlling agencies spend most of their time on the assessment of questions on inputs - that is, have supplies been obtained according to

regulations; have they been devoted to the precise purposes for which they were requested; have, in sum, all actions been carried out in conformity with the rules? These classic bureaucratic considerations underemphasize or entirely overlook questions of output - of productivity and profitability.

A common criticism of public sector operations the world over is that they compare performance not to pre-established economic or social objectives but rather to conformity with legal regulations. Is Africa so special in this regard? The response is yes, in that in Africa the degree of supervisory concentration on non-productivity issues seems extraordinary. In Senegal and elsewhere, the PE sector is subject to the supervision and control of a large number of imperfectly coordinated bodies, with different legal forms of PEs being supervised by different bodies, and with different agencies having as their responsibility only a part of the supervisory process. The result is a lack of a "focal point" to provide coherence and continuity in policy making and supervision; at the very least, much time and effort are wasted in attempts to inform ministerial and interministerial committees of coordination as to what is taking place.

Indeed many PE supervision meetings of any sort throughout Africa are difficult to arrange and are frequently post-poned or rescheduled; they often start late and are almost invariably subject to frequent interruptions and telephoning by key participants. There is a tendency to avoid an open statement of conflict which means that they drone on interminably, often wind up without putting forward a decision, and

commonly pass any seriously contentious issues to a higher authority. In sum, the problems of committees the world over reach a pathological state in Africa.

African government administrations are centralized in the extreme. The reasons for this are too numerous and complex to sort out in this paper. But the high degree of centralization has a decided impact of African PE performance. First, it means that ministers and high administrative officials interfere easily and often in enterprise management decisions. Extensive supervision and control regulations, many limiting at least in theory such interference, are in existence. Most of the time they are simply ignored. Since the ministers, and in turn the officials, are often interfered with by their superiors, they see it as normal behavior towards their subordinates, including the PEs under their supervision. This interference is a key cause of acute overstaffing, of non-performing individuals being protected by powerful patrons, and of much blatantly corrupt behavior.

The dominance of centralized governments and the absence of a substantial indigenous private sector in most African states means that PEs have no "role model" to follow other than government. Thus, there is no substantial sector of obviously more efficient performance against which PE activities can be compared. Moreover, African education systems are still geared to produce bureaucrats, technocrats and professionals; schools of commerce and business administration are few and training in them is limited to post-graduate studies. Training institutions turn out people who think in terms of applying regulations, not seizing opportunities. In

industrialized countries there is frequently an interchange of executives from the private to the public sector and back, presumably to the benefit of both. In Africa there is little revitalizing interchange of this sort.

Indeed, it is hard to see how there could be much of an exchange, since domestic African private sectors are mostly dominated by traders and artisans, not enterprise managers and investors. Admittedly, today's trader is tomorrow's general manager, and many operations now being run by African private sectors are financially sophisticated. Some promising first attempts at "cross-fertilization" are underway. In Togo, the appointment in 1984 of a new Minister of State Enterprises is revealing in this regard. The new Minister, a successful businessman and President of the Togolese Chamber of Commerce, had not previously held political office. He was appointed expressly to bring his private sector experience to bear on the Togolese PE malaise. While such appointments remain rare, they will probably grow in number and popularity as the pool of experienced African enterprise leaders increases, and as governments realize the need to try new, potentially more efficient managerial arrangements.

Systemic problems are matched by difficulties at the level of the firm. One of the most oft-cited obstacles to good PE performance is the extremely poor quality of basic information on enterprise activity. Across the continent one hears complaints of poor accounting practices in PEs, of accounts being completed only after lengthy delays, of the lack of standardized accounting systems making comparisons difficult if not impossible, and of the great difficulties of obtaining and retaining competent accountants. Putting decent basic accounting systems in place

must be regarded as an extremely important preliminary step, for these are the foundation on which rational and efficient PE management is based. In the absence of good, timely, standardized accounts it is pointless to recommend the use of more elaborate management information systems and performance evaluation systems. This would simply be ordering vehicles while having no gasoline.

The cumulative nature of African PE problems should by now be well apparent. Weak basic accounting results in feeble information and evaluation systems. Inexperienced management is sometimes not fully aware of just how inadequate is the data base on which they are making decisions. Boards of Directors of PEs do not fulfill the needed policy setting and decision-making roles, because of deficiencies in their composition (mainly civil servants representing ministries) and functioning. Civil servants in supervising agencies and ministries - and the fact that there is almost always more than one of each is a part of the problem - are usually good at the meticulous and time-consuming application of regulations, while ministers frequently ignore them with impunity, especially with regard to personnel issues. All of these institutional/managerial difficulties typically take place in a flawed macro-economic policy environment of price distortions, subsidies and over-valued exchange rates. Thus, in African PEs one is dealing not with a weak link in a chain, but rather a chain of weak links.

VI. Agenda for Reform

Overall, African PEs present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of non-commercial objectives. While every African country has a firm or sector which performs comparatively well, the aggregate level of performance of African PEs has been so modest that just about every observer, in and outside Africa, recognizes the need for fundamental reform. For the majority of African leaders and administrators concerned with PE performance, the hope is that many if not most PEs can be retained under state ownership - full or partial - and that methods can be found to make them more efficient and productive, more capable of meeting government-set objectives at minimal cost. Steps to achieve such rehabilitation of PEs are discussed in detail below.

But for a growing number of persons concerned with PE performance, rehabilitation of existing enterprises is not enough. To stop the hemorrhage of resources requires a more drastic attack on the problem. Increasingly, one hears recommendations for divestiture, for the sale or liquidation of PEs.

Divestiture

The arguments for divestiture are simple and straightforward. First, there are many African PEs which simply never should have been created in the first place, for which not the slightest comparative advantage existed or exists. In many cases, the assessment of the economic prospects for an enterprise was made by a private sector agent attempting to sell the plant and equipment; or by representatives of a

donor agency which took an optimistic view of prospects in order to advance a politically-advantageous project. The result was the many PE "white elephants" which litter the African landscape. Proponents of divestiture argue that tinkering with internal reforms in these PEs is inadequate. They argue that the more enduring solution is to sell to the private sector those which can be sold; and for those for which no buyer can be found, one should go further and simply close them permanently and liquidate their assets.

Second is the argument that the state is a poor entrepreneur. That is, even where PEs may be covering their variable costs or even making some return on capital, African states are paying a high opportunity cost because the resources producing a modest return in PEs could produce a higher return elsewhere. (In India, for example, the PE sector on average yields rates of return on capital of between 2.5-3%, while private sector rates of return generally exceed 10%.) This argument assumes the existence of an alternative user of resources, a competent private sector. But as has been noted, indigenous African private sectors are weak (though it is worth pointing out that their weakness is most often stressed by those who have an ideological or a vested interest in maintaining the power of the public sector). Some proponents of divestiture argue that the nationality of private investors should not be an issue. If African entrepreneurs have neither the skills nor the resources to purchase PEs, then foreign private sectors should be encouraged to undertake the task, and the risks. But most governments - African or otherwise - are nervous at the prospect of introducing or re-introducing a large foreign private sector; though a growing number admit that the situation requires bold action, including

management contracts, leasing arrangements and outright sales of PEs to foreign businessmen. Note that this is not simply a matter of trying to sell losing PEs to the private sector. Many proponents of privatization go further to argue that the state's objectives - employment and revenue generation for example - would be better served under private ownership arrangements of many PEs. The more committed advocates of privatization go on to assert that states should attempt to sell off not merely their losing propositions, but also those profitable operations which presumably could earn a higher return outside of public ownership.

An African counterargument to divestiture occurs at this point. In most African countries internal markets are so small that at least large manufacturing firms frequently acquire automatically a monopolistic or oligopolistic position. (Even in very small African markets this is not necessarily the case for many firms producing consumer products in the tertiary sector.) Many existing PEs in manufacturing, services and extraction are monopolies. There is no reason to believe that the replacement of an inefficient public monopoly by a poorly regulated or unregulated private monopoly would add greatly to the country's net socio-economic welfare (unless it could be shown that the new private sector monopolies would invest their earnings in the economy in a more productive manner than government monopolies). Indeed, it is apparent that the factors which contribute to poor PE performance (improper macro-economic policy environment, poor managers, poor information systems, pervasive corruption) are the very same factors which weaken the African states' capacity to regulate large and powerful private sector firms. A refinement of this argument is that administratively weak African states

find it particularly difficult to negotiate successfully with and regulate multinational firms. Finally, African governments are concerned over the possibility that the divestiture of service activities, now furnished by PEs, to private sector suppliers could result in the disruption or complete breakdown of an essential service.

There are thus many unanswered questions generated by the privatization side of the divestiture issue. African governments are turning towards privatization out of desperation, in an attempt to stem the drain on their budgets, even though they are aware of the experimental nature of this effort. There is a growing sense that even unproven measures such as privatization, which at least hold some promise for improvement, must be tried because a continuation of the current PE situation cannot be tolerated.

While privatization receives the bulk of attention and is the subject of intense debate, pro and con, within Africa, closures and liquidations of PEs appear to have been - up till now - far more frequent. In a 1985 sample of fifteen sub-Saharan countries, a preliminary reading of the data indicate that about 88 closures and liquidations of PEs took place in the period 1979-1984. In roughly the same time period there were about 23 sales of assets or equity; mainly the former. It appears that there were equity sales in only four countries: Mali, Senegal, Zaire, and Kenya. (There have also been at least 20 management contracts concluded in African PEs; 13 leasing arrangements and 7 joint ventures; all of which can be subsumed under the general divestiture heading. Note again that the figures are tentative and probably already out of date as much activity has

taken place in the period since the compilation of these data.) Many of the closures (in the Cameroons, Guinea, Liberia, Madagascar, Mali, Senegal and Togo) have been partial or creeping or what one might call a "withering away." That is, an enterprise will lose its market, or never produce at a rate sufficient to cover variable costs, or exhaust all available avenues of credit, or suffer some technical reversal which will cause it to reduce production to a trickle, or to stop production altogether. For whatever reason, some set of circumstances will cause the PE to fall below the minimal tolerated performance level and the government will cease replenishing capital. Inventories will then be run down, the capital stock begins to deteriorate, and while in some cases workers continue to receive full or partial pay (perhaps sporadically) they may not bother to go to the plant except on pay days. The PE begins a process of decay which may take many years to complete and during which the firm will continue to count as an active PE, even though its plant may be empty and idle. Official, legal liquidation will only come later and indeed, has not yet come for most of the African PEs in this category.

The reluctance to liquidate definitively is mainly due to political sensitivities. A PE's withering away in slow and piecemeal fashion is not likely to provide political opponents with a provocative issue around which protest can coalesce. Informal closures keep open the option of a revival of the enterprise, under public management, at some future date. They allow postponement of the final settling of debts, severance pay and retirement payments. They follow a path of least resistance. (Very similar concerns may explain why leasing appears to be gaining in popularity.)

Divestitures have tended to take place in enterprises that are small - both in terms of assets and numbers employed. PEs in the utilities and mining or natural resource areas have generally not been touched; manufacturing and services are the active fields, with a few actions taking place in agriculture. The major finding is that to date divestiture has not been a widely used PE reform measure in sub-Saharan Africa. However, there is a great deal of activity on the African divestiture front at the moment, with major PE sales and closure efforts being deployed in Guinea, Senegal, Ghana, Togo, Benin, Niger, Mali and Kenya - among others. Many divestiture actions are in the late planning stage and a search for interested private partners is already underway.

Admittedly, these are untested waters. Divestiture is a very new activity in Africa; there is much preliminary action but no reliable patterns have yet emerged. The picture will be clearer in a year or two. What one can say now is that few African entrepreneurs have so far overcome the combined lack of local capital markets and lack of willingness of local representatives of international banks to support their purchase efforts. Some international entrepreneurs are willing to take high risks in coup-prone Africa, though when they are willing to invest in African PEs they often demand high rates of protection and mechanisms to allow them to recoup their total investment in extremely short periods.

The arrangement by which a portion of a near-defunct Togolese PE steel mill was leased to a private foreign entrepreneur, for illustrative example, has been criticized by external economists. Criticism arises because the new firm is assured a protection rate of 41% and tax-free

importation of all raw materials, and because the lessor pays Togo a modest annual lease fee of \$175,000, a fraction of the interest charges the Government of Togo must continue to pay on the original large investment. Togolese officials agree that they would not want to repeat the specific terms of the steel mill leasing arrangement. They do argue, however, that the arrangement shows to the international business community that there are prospects in Togo. It is clear that the original arrangement is not economically defensible in and of itself, for Togo could have shut, dismantled and sold as used the steel mill, and then imported more cheaply the high priced products now made locally. The plant employs only 75 people, the lease fee is small, the rate of effective protection is too high. And while the Togolese may hope that the arrangement will attract other lessors and buyers, they run the risk that new entrants will demand the same uneconomic terms as those already granted.

The Togolese steel mill case illustrates that more is at stake than privatization per se. African governments must be strengthened in their capacity to select PE candidates for divestiture, to market these enterprises and to negotiate mutually beneficial sales, lease or management contracts with private sector parties. Innovative actions - such as "leverage buyouts" where the manager or managers of a firm purchase the enterprise from its owners by raising capital from a third party that takes some equity in the firm - are needed. In the Ivory Coast, a "leverage buyout" of an agro-industry PE was arranged with the participation of the International Finance Corporation. The World Bank is presently assisting the Government of Togo to prepare potentially "sellable" PEs for entry into the market, by means of a detailed study of their past performance, assets

and potential. The goal is to produce "privatization dossiers" which will serve to attract and persuade private sector buyers. Governments of several other West African countries are presently receiving technical assistance in aid of their fledging privatization programs. The point is that it is not enough for the international donor community to recommend (or insist upon) divestiture; that community should be prepared to go further and provide the interested African governments with the technical - and in some cases the financial - assistance which is necessary if divestiture is to be a success.

Rehabilitation

A basic fact must be faced: Even if every contemplated or conceivable African PE divestiture candidate were sold or liquidated in the near future there would still remain in every sub-Saharan country a substantial PE sector. Over the long run it is within the realm of possibility that traditional PE activities, such as utilities, might be transferred to private ownership; but it is not at all likely. There are many service provision natural monopolies which African governments (as others the world over) regard as "strategic". They do not contemplate selling these to private owners (though it should be noted that in several West African cases the private sector has shown some interest in purchasing them). Often, these PEs are the largest, in terms of assets, employees and financial losses. The private sector often is not allowed to step in, and no government would consider for a moment the closure of essential services. The remaining alternative is to attempt to improve performance, basically under present ownership arrangements.

The general goals in improving PE performance are easy to name. They are to create an appropriate macro-economic policy environment in order to expand the role of markets, to expose PEs to the stimulus of competition, to clarify objectives and the relations between governments and enterprises, and to optimize managerial autonomy at the level of the firm. It is easier to name the general areas needing improvement than to show just how the required changes should be carried out, or to offer examples of conclusively successful African adoption of these objectives. Nonetheless, some promising reform approaches have been devised.

Markets and Competition

The key to internal reform of African PEs is to devise a system of incentives which will reward improvements in efficiency. The most direct way to do this is for African governments to allow, where at all possible, private firms to compete with the PE, while at the same time instructing the PE to operate on commercial/market lines and maximize its profits. If a government is prepared to go further and close down PEs which demonstrate that they cannot compete in this "liberalized" policy environment, then it has come close to fulfilling all the recommendations of economists who have studied the problem - assuming that the private firms and PEs are on the same regulatory and financial footing. (Some governments have allowed private firms to compete with PEs, but controlled prices in such a way to guarantee the least efficient "competitor" - usually the PE - to turn a profit.) An instruction to maximize profits provides strong incentives to hold down costs; it pushes the PE to generate reinvestible surpluses, it provides an objective test of performance, and

aids the morale of management and workers. In competitive markets, then, profit maximization for PEs is a reasonable way to promote efficiency.

Though its use should be encouraged, the fact remains that "profitability is a most imperfect guide to PE performance." (Killick, 1981:284) Why? Because many markets, especially in Africa, are not competitive. A monopoly electricity supplier, instructed to maximize profits, may easily push rates to an undersirably high level. This leads to a closely related second consideration: that profits may not measure a PE's capacity to produce social benefits, to fulfill those non-commercial objectives for which so many PEs were formed. Outside of Africa, the difficulties and shortcomings of applying the pure profitability measure in PEs have led to the use of other assessment methods - technical efficiency calculations, cost-efficiency ratios, coefficients of value added and extent of capital utilization, instructing PEs to earn some target rate of return on capital employed, or instructing them to price their output at the long run marginal cost. All of these second-best measures and guidelines have been applied; sometimes several together. For example, several years ago, the British government instructed its PEs to:

- a) for monopolies, price according to long run marginal cost;
- b) for all PEs, use cost/benefit analysis to assess contemplated investments; and
- c) earn a specified rate of return on capital.

This combination proved very difficult for British PEs to handle; a sobering finding when one thinks of applying such measures to sub-Saharan Africa. The obvious worry is that if resource-rich British firms, working with a skilled and experienced civil service, could not succeed in applying such rules, what chance is there that African PEs can make a go of this approach?

Nonetheless, a number of African governments are presently considering ways and means to push their PEs into a more competitive, market-oriented position. In Benin, Kenya, Mali, Niger and Togo, for example, macro-economic policy changes have been planned and in some cases are being implemented which would end the regulated monopoly position of some PEs, and impel others to adopt pricing, investment and credit policies more in line with those used by private firms. Still, much of this remains in the planning stage; only a few concrete measures have actually been carried out. African governments, frequently supported by agencies such as the World Bank, have so far concentrated their major rehabilitation energies on two important areas which they consider deserve priority attention. These are: basic analyses of and information-gathering within the PE sectors, and what is termed "institutional questions;" i.e., the relations between the government agencies which oversee the sector, and the individual enterprises. While the remainder of this paper concentrates on these issues, it should be underlined that managerial/institutional reforms, important as they are, can have only a very limited impact in the absence of macro-economic policies giving the proper set of signals to producing units.

The rapid and sometimes haphazard growth of PE sectors strained the capacity of weak and inadequate African monitoring and data-gathering systems. All parties have recognized that a general review and stock-taking must normally precede rehabilitation (though in some instances, such as Togo, where the government wished to seize the initiative without waiting for the result of a lengthy study, general reforms have been decreed, and the work to fill in the data base has followed, rather than led - with good results). Determining the exact past performance of PEs, their precise financial situation, the markets in which they operate, and assessing their prospects for the future - these are the basic issues. Many African countries have started to attack the issue. In Niger, a comprehensive 1983-84 study examined fifty four of the country's seventy PEs, producing three summary volumes and a detailed individual analysis of every firm in the sample. This set of studies provided the Government of Niger with essential information on PE performance and prospects which it did not previously have. First, the exercise informed the Government as to the seriousness of the problem. Second, it allowed the Government to begin the crucial process of classifying enterprises into those to be retained, those to be rehabilitated, those to be sold, and those to be closed. Third, it placed the Government in a position to negotiate with the World Bank a structural adjustment credit - in which public enterprise policy issues figure prominently - and a public enterprise reform project - in which Government supervision mechanisms will be strengthened, the PE legal framework clarified, and a select number of enterprises restructured. Similar, though smaller, studies have been carried out in half a dozen other African states including Mali and Senegal, and a number of these essential "stock taking" examinations are

being planned or are underway - in Ghana, Guinea, Benin, and Mozambique, for example.

Many of these studies have been carried out or planned with the assistance of the World Bank; most of them in West Africa, but in Burundi, Madagascar, the Sudan and Zaire as well. In several of these ventures, the African governments and the Bank have gone beyond the study stage and launched a process of rehabilitation. No perfectly set formula, no "recipe" for PE reform has yet emerged from these experiences. But the broad outline of a reform approach, based on these several experiences, is starting to take shape.

The Reform Process

Generalizing from these experiences, the reform process proceeds in two main phases, each of which is divided into three stages, as follows.

Rehabilitation Process

Phase One - Preparation

- Stage 1 - Diagnosis
- Stage 2 - Devising an Improvement Plan
- Stage 3 - Drawing up a Contract-Plan
(or its equivalent)

Phase Two - Execution

- Stage 1 - Implementing & Monitoring the Improvement Plan
- Stage 2 - Evaluating Performance
- Stage 3 - Revision of Contract-Plan on Basis of Lessons Learned

This approach is derived from the World Bank-supported effort in Senegal, which was the first African country to commence major PE sector reform,

starting in 1978, and continuing to the present. (It is revealing and disquieting that a reform effort begun eight years ago is still far from completion.) In other countries the terminology may differ, and the neat division into stages doubtless imposes too much order on what is everywhere a fluid and experimental process. The following discussion is definitely not a blueprint for policy-makers to follow; differing local circumstances will call for considerable flexibility of application. Nonetheless, the principal steps are: diagnostic studies to gain needed basic information and alert relevant parties to the nature and scope of the problem; the drawing up of an improvement plan in those PEs that are salvagable, must be salvaged or need work preparatory to sale; and the drawing up of a contract-plan, or some similar mechanism specifying the obligations and expectations of the government and the enterprise. Experience teaches that this first phase must be seen as tentative; the process must be closely watched and guided, the achievements and problems clearly analyzed, and the contract-plan (or its equivalent) periodically revised to reflect the lessons of experience. This second phase is then repeated indefinitely. The idea is that the changing socio-economic environment necessitates periodic revisions in the contract-plan. The process is an example of a low level "rolling plan" approach. Some normally but not inevitably present features of each of the stages are described, briefly, below.

Diagnosis refers to a thorough examination of the sector and government supervisory institutional arrangements as well as assessment of performance at the level of the firm. While in most cases the diagnosis, at all levels, is carried out by examiners from outside the government (and often from outside the country) it is crucial that these assessors work

closely with the government and the enterprise personnel who will be partly responsible for drawing up the improvement plan, and just about fully responsible for negotiating the contract-plans and implementing them. These key staff must be as involved as possible from the outset; they must understand the diagnostic process and concur in its conclusions and recommendations. If not, the resulting steps will be seen as something alien and imposed. The diagnosis examines sector and enterprise objectives (and the inconsistencies and lack of clarity therein), the legal, institutional and regulatory environment (almost always necessitating legal advice), and the constraints imposed on the sector and firms by their social service, non-commercial obligations. Concerning this important last issue, the general goal is to find ways to specify the costs of non-commercial activities of PEs. This serves the dual purpose of showing to what extent a PE's losses are caused by social service activities (or to what extent its profits are reduced), and it shows the government in currency terms the costs of fulfilling political objectives.

Thirdly, the diagnosis focuses on management issues such as planning, information systems, accounting, audit, division of responsibilities between firm and government, and supervision and control tasks. This has proven to be a most complicated portion of the exercise, since it involves detailed stipulation of procedures, analysis of training needs, analysis of capabilities and performance, etc. Fourthly, the diagnosis examines in detail financial issues, including the sources and uses of funds, cost recovery, budgeting, debts, credit and financial relations between the state and the enterprises, and among enterprises themselves. This too is a complex task.

The diagnosis does more than identify problems; it offers general recommendations, and it proposes an overall reform strategy on the institutional, structural and financial levels. It spells out the approach to reform, the details of which are taken up in the improvement plan. On the sectoral level, the diagnosis is submitted for discussion to the ministry of state enterprises (where one exists) or to the central body supervising PEs. Discussion usually involves interministerial meetings since PE oversight invariably involves financial as well as technical/managerial concerns. Disputes between involved parties are common, and higher levels - the Prime Minister's or the President's office - must sometimes be called in to resolve problems. What is important is that a strategy be adopted, both for the sector as a whole and for involved PEs.

The improvement plan flows naturally out of the diagnostic process. It identifies responsible officials in government and in the enterprises; it spells out terms of reference for agreed-upon technical assistance (long and short-term), and it specifies, in step-by-step fashion, just who will do what, with what resources and by what date. Normally, the basic aim is to put the enterprise in minimal working order so that a contract-plan can be put in place; though it should be noted that certain enterprises - basically commercial operations running efficiently and profitably and not relying on government transfers - may not need to go through the formal control-plan process. (Normally, the more commercial an operation, the more it functions in a competitive market setting, the less it needs formal governmental supervision. Contract-plans may not be necessary for enterprises of this type; and if they are applied, they can

be quite simple and general.) The improvement plan starts the process of identifying objectives and defining the criteria of performance. There will be a great variance in the complexity and duration of improvement plan exercises. Some PEs can proceed almost directly from the diagnosis to the contract-plan stage or to competition in the market; others need extensive damage repair under an improvement plan before they can hope to negotiate a contract-plan. In sum, a normal improvement plan will stipulate a sector or individual PE's mission and objectives, steps to be taken to improve the legal and institutional environment, necessary changes in economic regulation (investment code, procurement issues), and internal management issues in the PEs, including financial rehabilitation and performance criteria.

Once a minimally-effective government oversight body is in place, and once the most obviously threatening of a PE's problems are solved or are on the way to being solved, one can consider applying a contract-plan. (The term comes from the French contrat-plan. The French invented the concept and have used it extensively in their own PEs. Contract-plans are used or under consideration for use in many francophone African states. "Program contract" is another term meaning much the same thing. In some anglophone countries the concept of "corporate plan" is in vogue, and may refer to a similar mutual specification of obligations and expectations, though many corporate plans neither include nor mention the role of governments.) The contract-plan defines the reciprocal commitments of government and enterprises, for several years in advance. It is a contract - though clearly a firm cannot sue its parent government in case of non-compliance. The contract-plan spells out the goals of the PE, and

establishes as specific as possible performance criteria against which results can be measured. It fixes the government's responsibilities and commitments in an equally precise way, notably with regard to:

- legal and institutional changes required to improve the workings of a PE,
- prices or tariff schedules,
- allowable or target number of employees,
- physical, human and financial resources to be accorded to the PE during the contract-plan period, including capital increases, loans and loan guarantees.

Whether a country adopts the formal contract-plan or not is less important than the adoption of the underlying principle: all PEs need a clear and binding statement of the objectives of the firm and of the support to be given by the government.

The appeal of the contract-plan is that it specifies the actions both parties are committed to undertake. It provides a series of quantified performance objectives for the enterprise to aim at, with regard to sales' unit costs, or labor ratios and other physical and financial indicators. It further provides a schedule for envisaged actions, details the procedures for performance evaluation, and defines the rewards and sanctions which will be imposed for proper fulfillment or non-compliance.

Almost always it has the aim of increasing the power and autonomy of the management of the PE. However, the record of contract-plan preparation indicates that they are not easy to negotiate or implement, in France much less in developing countries. Governments long accustomed to the luxury of vague or contradictory objectives and haphazard financial commitments resist specificity. The same is true of some PE managers, who have hidden their inefficiency behind unclear objectives, multiple control agencies and interfering politicians. The very same factors which make the contract process desirable - i.e., complex and uncertain economic environment, conflicting objectives, poor past performance of the PE - make the concept difficult to apply. The negotiation of a contract-plan has thus taken much more time than anticipated. In Senegal, one contract-plan went through nine different drafts before all parties could agree. In another African country, a technical advisor was brought in specifically to assist in the preparation of contract-plans for PEs. After a year of fruitless efforts, the advisor left the country, well ahead of the anticipated termination date, without one contract-plan having been prepared. Some aspects of this particular failure had nothing to do with contract-plans; nonetheless, the case illustrates that creating and implementing contract-plans requires time, skill and patience.

Formal contract-plans have been tried in only a few African countries. Many more, in both anglophone and francophone Africa, are planning to adopt them, or are considering their use. Very little in the way of formal evaluation has been carried out on the contract-plan process. One brief analysis tried to compare performance, over a three year period, of six Senegalese PEs with contract-plans to a larger group of

eighteen PEs without contract-plans. The study found that the firms with contract-plans had higher rates of growth of turnover, significantly lower labor costs, and very slightly higher rates of decrease in deficits. Levels of profitability and rates of return on capital were not significantly different from one group to the other. Much more work needs to be done on assessing the utility of contract-plans in general and their suitability for developing countries in particular.

The agreement on expectations and obligations caps the first phase of the reform process. The second, execution phase begins with an implementing and monitoring process, during which the constructed (or reconstructed) mechanisms of government supervision, enterprise management, and reporting/information are set in working motion. One should not expect that even an extensive improvement plan, or the most apparently solid contract-plan, will produce immediately excellent results. Training accountants and installing proper accounting procedures takes time. Changing the composition, powers and habits of PE Boards of Directors takes time. Convincing government PE supervisors that increased autonomy at the level of the firm will promote efficiency more than corruption takes time. A long-term view is necessary; thus, this stage must be regarded as almost indefinite in length. It will be a matter of quasi-constant discussions, analyses, adjustments and modifications. The process can have a formal timetable. In Senegal, for example, the rehabilitated PEs submit twice a year execution reports to their Boards, which discuss them and then pass them on to the proper supervising ministry, and eventually to central PE sector control and regulating bodies. These reports reveal how the PE is doing in terms of the goals set in the contract-plan. The government uses

these reports to allocate rewards or sanctions and to launch stage 2, that of performance evaluation.

The performance evaluation process overlaps with implementation and monitoring efforts; that is, implementation and monitoring are continuous, while the performance evaluation process is necessarily static; it asks, what has been the achievement of specified goals up to a particular point in time? Performance evaluation of PEs should be considerably simplified by the existence of the contract-plan along with the preceding improvement plan and general diagnosis. When PE goals are well specified they usually can be assessed by means of quantified indicators. If the PEs produce - on-time - valid accounts and financial statements; if the government supervisors collect and analyze properly these data; and if government sends the proper signals back to the firm, in terms of rewards and sanctions to both management and workers, then the process can serve as a stimulant to productivity and good performance. But of course the government must also evaluate its own performance, with respect to its fulfillment of obligations laid out in the contract-plan. Enterprises cannot do this - though their reports can show where blame for problems lays. Critical self-evaluation has proven difficult for governments, and government failure to honor commitments with regard to financing and price adjustments have been a major problem in the contract-plan process.

When performance evaluation and monitoring show that achievements, on either side, are increasingly out-of-line with objectives as presented in the contract-plan, then a revision of the contract-plan is

called for. In Senegal, the process calls for an annual revision of contract-plans, in terms of redrawing objectives and government obligations. Elsewhere the intervals between formal revision are longer, though the high degree of economic uncertainty in Africa makes it unlikely that the many assumptions and predictions necessarily contained within a contract-plan will hold up over time. This means that frequent revisions, as in Senegal, will probably be the norm. This entire second phase is repeated indefinitely; as the contract-plan is revised implementation and monitoring once again take place, followed eventually by a formal performance evaluation and contract-plan revision, etc.

It is important to underline that these phases and stages are, to date, not strict guidelines but rather a loose checklist of issues and steps to be considered in PE rehabilitation. The process of attacking PE problems at a sectoral, policy and institutional level - as opposed to internal reforms at the level of the individual firm - is simply too new and experimental to have yielded absolutely firm conclusions. Moreover, this paper has mentioned only in passing the crucial financial restructuring aspects of public enterprise reform - recapitalization, settling inter-locking debts, restoring working capital. These aspects are of prime importance; indeed many African governments regard them as the only issues needing immediate attention.

Overall, it seems reasonable to think that African countries seeking to reform their PE sectors will have to consider in one way or another the issues mentioned above. At a minimum, there must be an information-gathering exercise, on at least the most economically important

PEs. A coherent government supervision structure must be created.

Programs of enterprise and government agency reform will be necessary, emphasizing:

- in government, providing an appropriate macro-economic setting in terms of prices, credit and exchange rates, changing government supervision mechanisms from direct managers of PEs to indirect supervisors, promoting the contract-plan (or its equivalent), and creating a performance evaluation system, complete with rewards and sanctions; and

- in the firms, creating decent accounting and reporting systems, financial restructuring, clarification of objectives, and optimizing the capacity of Boards of Directors.

It must be admitted that the reform actions called for are administrative-intensive operations, demanding much of weak and already over strained administrative systems. It must also be stressed one final time that even if the African countries attack successfully their institutional/managerial obstacles to good PE performance, they must at the same time improve the macro-economic and financial setting in which the PEs operate. These factors compound the difficulty of finding a quick and simple solution.

Thus, the complexity of the issue is daunting. Public enterprise reform involves macro-economic policy issues and micro-managerial administrative details. Sensitive socio-political concerns intrude into every aspect of the issue. To master the field one must be, at the same time, an economist/financial analyst/management specialist/political analyst. There is an absence of proven solutions, especially in Africa, where alternatives used elsewhere with some success - divestiture and subjecting PEs to the stimulant of competition - are so problematic (though not impossible). Nonetheless, the need for through-going reform is acute. Poor African PE performance in the 1960s and 1970s was masked by good (compared to the present) commodity prices, capital flows, and growth rates. These factors have altered, revealing plainly the scope and intransigence of the PE problem. The reform of public enterprise sectors is now everywhere in Africa a matter of the highest priority. The reform effort will be lengthy and expensive, and will demand much from both African governments and the development assistance community.

Bibliography

- Bovet, David. "Financial Impacts of Public Enterprises in Sub-Saharan Africa," paper submitted to the World Bank, August, 1985.
- Cliffe, Lionel. "Underdevelopment or Socialism? A Comparative Analysis of Kenya and Tanzania." In Richard Harris, ed., The Political Economy of Africa. New York. Schenkman Publishing Co., 1975.
- Eckert, Gerhart, and Werner Puschra. "Public Enterprises and Development." Viertel Jahres Berichte (December, 1984).
- Gouadain, D. et Lecointre, U. "Difficultes de Gestion des Entreprises des Pays en voie de Developpement," Institut d'Administration des Entreprises, 1984.
- Grosh, Barbara. "Agricultural Parastatals Since Independence: How Have They Performed?," Working Paper No. 435, Institute for Development Studies, University of Nairobi, January, 1986.
- Institut de developpement economique de la Banque mondiale, Les politiques de transport en Afrique Francophone au Sud du Sahara: Problemes et choix. Washington: Banque Mondiale, 1985.
- Jones, Leroy P. Public Enterprise in Less Developed Countries. Cambridge: Cambridge University Press, 1982.
- Kierans, Tom. "Commercial Crowns." Policy Options Politiques (November, 1984).
- Killick, Tony. Policy Economics. London: Heineman, 1981.
- Mkulo, M.A.M. "Interview." Public Enterprise (February, 1985).
- Msambichaka, L.A., and M.S.D. Bagachwa. "Public Sector Enterprises in Tanzania: Problems and Constraints." Viertel Jahres Berichte (December, 1984).
- Kenya. Report and Recommendations of the Working Party on Government Expenditures (Philip Ndegwa, Chairman), July, 1982.
- Shirley, Mary M. Managing State-Owned Enterprises. World Bank Staff Working Paper No. 577. Washington, D.C., 1983.
- World Bank. World Development Report - 1983. New York: Oxford University Press, 1983.

The World Bank

Headquarters

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

Telephone: (202) 477-1234

Telex: WUI 64145 WORLDDBANK
RCA 248423 WORLDDBK

Cable Address: INTBAFRAD
WASHINGTONDC

European Office

66, avenue d'Iéna
75116 Paris, France

Telephone: (1) 47.23.54.21

Telex: 842-620628

Tokyo Office

Kokusai Building
1-1 Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan

Telephone: (03) 214-5001

Telex: 781-26838

