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Regional African Workshop on
Public Industrial Enterprises
and their Environment
Algiers, 6-10 June 1987

REPORT*

Jointly organized by the
United Nations Industrial Development Organization
and the
Institut supérieur de Gestion et de Planification, Algeria

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* This is a translation of an unedited document.

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Part One

PROCEEDINGS OF THE WORKSHOP

Chapter I

Objectives and Organization of the Workshop

The Regional African Workshop on Public Industrial Enterprises and their environment was organized jointly by the Institut Superieur de Gestion et de Planification (ISGP) and the United Nations Industrial Development Organization (UNIDO) from 6 to 10 June 1987 in Algiers. The Workshop was held within the framework of the Industrial Development Decade for Africa (IDDA) and was attended by 23 participants, including Government policy-makers, public enterprise managers, academics and representatives from ISGP, ICPE and UNIDO, who all participated in their personal capacity[1].

Country case studies on Algeria, Ivory Coast, Kenya, Nigeria, Senegal, Tunisia, Zaïre and Zambia had been prepared by ISGP and UNIDO as a substantive basis for the discussions. A consolidated background report based on the country case studies served as an issues paper for the deliberations of the workshop[2].

The specific objectives of the Workshop, as elaborated in the Aide-Mémoire, which had previously been sent with the invitations, were to examine the impact of regulation and planning mechanisms on the management and efficiency of Public Industrial Enterprises (PIEs), and further to examine the relationship between the controlling government authority (or holding company) and the managers of the PIEs.

Opening the Workshop, the Resident Representative of the United Nations Development Programme (UNDP), Mr. D.S. Whaley, reminded the audience that the Decade for the Industrial Development of Africa, adopted in Lagos by the Heads of African States, was subsequently proclaimed by the General Assembly of the United Nations. He thanked Algeria which had actively cooperated in its realizations, showing itself ever ready to exchange information and experiences on establishing and managing a system of industrial public enterprises.

In his introductory statement, the Director of UNIDO's Project Review and Appraisal Division, Mr. A. Hacini, noted first that many African countries were subjecting the structure and performance of their industries to a critical examination, in the hope of evolving new industrial policies and strategies.

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1 A list of participants is provided in Annex 1.

2 Part III includes this report, as well as summaries of the country reports.

This affects particularly the public enterprises, which contribute approximately 30% of the value added of industry. Governments had established them either in pursuance of their overall economic policy, or to make up for the lack of private initiative, or again to control the use of mining or agricultural rents. They usually are capital intensive, and concentrated in basic sectors.

It must however be admitted that the performance of public enterprises has often proved inadequate, in terms of quantities and qualities produced, as well as in terms of financial results.

As a result, a number of countries have undertaken both to re-define the scope and functions of the public industrial sector, and to improve its organization and operations.

The first point belongs to the area of economic policy decisions, depending on industrial strategies and the capacity of the States to mobilize financial resources. The general trend is to increase the role of the private sector, concentrating public investments in areas strategic for development or requiring heavy capital outlays without offering the prospect of rapid returns.

The second point, mode of operations, is the one of immediate concern to this Workshop. Studies by UNIDO, the ILO and the ICPE show that the performance of the public industrial sector is largely dependent on the system of organization and regulation under which it operates.

Are relevant in this respect modes of decision and control over choice and evaluation of objectives, selection and management of personnel, choice of investments, price and commercial policy, and finally financial management.

This Workshop will focus on a limited number of countries which have accepted that a preliminary survey be carried out of the functioning of their public industrial sector.

Mr. Hacini expressed the hope that the conclusions of the Workshop could assist African countries in identifying measures to improve the efficiency of PIEs and UNIDO in focusing technical assistance in this field.

After welcoming, in the name of Algeria, the participants to the workshop, the Director-General of the Institut Superieur de Gestion et de Planification, Mr. Liassine pointed out fist that the ambitions of the Workshop would inevitably be limited: it will not be possible to discuss such fundamental issues as the relative importance of the private and the public sector, or whether the choice of the public sector as the spearhead of industrial development in Africa is appropriate.

In a workshop which gathers together managers and supervisors, one should rather start from inside the public enterprises to query the determinants of their performance and the means of improving it. In order to introduce the debate, M. Liassine went on to make some substantive points.

First, efficiency depends on achieving assigned objectives. Its evaluation can be carried out effectively only if these goals have been made explicit by the political authorities who have the final say in the matter. For PIEs, there usually exists a multiplicity of objectives. No single finality is therefore valid, such as the micro- economic goal of accounting profits. Public enterprises also serve purposes, and are subject to constraints, of macro-economic order. These are usually of a long term character which will outlive the immediate preoccupation with adjustment which dominate short term policy in many countries.

Second, efficiency basically concerns the way in which resources are used by the enterprise to reach its objectives. The economy of means must be a permanent and daily concern of PIE management. It should also supply the basis for evaluation. This raises the basic questions facing this Workshop: what are the factors determining efficiency? Do they vary from one African country to another? On what factors should one seek to act first in order to improve it?

Third, it is difficult to define for public enterprises an exact measure of efficiency appropriate to the African context. Assessment through accounting profits is not always appropriate, first because prices are often arbitrary, but mostly because financial balance, if it is often a constraint, cannot constitute the only goal for public enterprises.

In developing countries, evaluation of enterprises demands an analysis that take into account factors specific to their environment. The performance of national enterprises, be they public or private, is unavoidably affected by the state of under-development. Insufficient infrastructure, poor quality or even un-availability of goods and services, limited human skills, insufficient training in collective work, are all factors that weigh heavily on the efficiency of national firms. The Workshop could consider how the excess costs they bring about affect public management, and how they could be reduced.

Under-development concerns not only physical equipment but includes everything that reduces, directly or indirectly, the potential productivity of work and of management in particular. Fighting under-development thus involves changing the social, institutional and cultural background that reduces the productivity of the economy.

As has already been pointed out, the performance of African public enterprises is heavily dependant on the system of regulation under which they operate. The Workshop should therefore examine the impact of these systems, and the additional costs they cause.

It is of course the responsibility of public authorities to compare these additional costs to the political goals of which they are the economic price. It is however the job of the technicians, present in this Workshop, to enlighten the authorities on the economic stakes attendant upon the decisions they are called on to make concerning organization and regulation.

The agenda, as adopted by the participants, covers the following points for discussion[1].

- Structure and organization of PIEs: the topic covers the legal forms of organization and the structure of powers that appear in different countries.

- Investment decisions: this field covers the choice of projects, in relation with macro-economic planning, feasibility studies, modes of decision-making and financing, difficulties in realization.

- Price formation, domestic and foreign trade: one would deal here with the consequences for PIEs of pricing rules, of controls over domestic and foreign operations. The latter include import conditions, the exchange rate system and export policy.

- Accounting and financial management, to discuss the way in which Governments supply PIEs with capital and control its use.

- Human resources management, covering the whole field, from the appointment of the general manager (and of the chairman of the Board), to the pay scales, and the motivation of the staff and labour force. - Strategic management of PIEs: this general title would cover the functioning of relations between PIEs and the controlling authorities. Starting from the different areas covered, one should reach a general view of which structures can enable PIEs to work effectively, while respecting national priorities.

- Evaluation of performance, the last stage of that relationship. As was pointed out above, major difficulties arise here in defining appropriate criteria and procedures.

1 The agenda is given in Annex 2.

The organization of each session will include:

- a rotating Chairmanship provided in turn by participants from different countries,
- a rapporteur, chosen among the UNIDO consultants, who will also introduce the debate.

The rest of the report will be organized as follows:

- the second chapter of Part I includes the conclusions as they were approved at the closing session of the Workshop,
- Part II presents a summary record of the Workshop debates.
- Part III includes a description of the problems of PIE management based on the country case studies as well as a summary of these studies.

Chapter II

Conclusions and Recommendations

1. Structure and Organization of PIEs

1.1. PIEs which had played an essential role in Africa development, have more recently seen their efficiency and performance criticized. Further, changes in economic policies in a number of countries, such as decreased external protection and a more liberal method of price formation, will enhance requirements for their good performance.

1.2. When attempting to define PIEs in order better to apprehend their specific management problems, it is usual to distinguish two major functions: the national development functions on the one hand, and the commercial functions on the other, which combine in proportions varying from one enterprise to another. Thus one may categorize PIEs according to the relative weight of these functions:

- The first class of enterprise is characterized by the predominance of development objectives, while goods and services are simultaneously produced for the market. Such PIEs carry externalities more important than their purely commercial functions.

- The second class on the other hand carry out their activity in a more commercial environment where financial criteria become if not exclusive at least more significant in the assessment and evaluation of efficiency.

1.3. The point of this functional definition of PIEs is to stress that any quantitative assessment must integrate specifically the over-cost relating to the national development function, whatever class it belongs to.

1.4. Is it then possible to give significance to the legal forms governing public enterprises? While the existence of a single model appears doubtful, it is apparent that decisions as to the institutional structure of PIEs will depend on national environment: the long term goals of the society and the role given to central planning remain prime determinants of the institution of PIE's. Legal and institutional forms must remain consistent with the national context and follow its logic.

1.5. It was felt however that essential determinants of PIE performance are probably to be found in other areas. Factors mentioned at the workshop include the following:

- a clear statement of the objectives of the firm;

- an explicit definition of the relations between the management and the control authorities;

- the quality of top management;

- the observance of strict financial discipline;

- a clear set of criteria from which the performance of management will be assessed.

1.6. Beyond the question of an optimal legal form, a consensus arose in the workshop with respect to the relations between PIEs and the Government. It was felt that three basic principles should direct any attempt to improve the capacity of PIEs to reach their objectives:

- make explicit the duality of purpose of these enterprises: national development goals and commercial functions. This should permit ex ante establishment of the set of rules and mechanisms for financing and evaluating the activities linked to these two functions.

- grant to PIEs maximal autonomy in managing their commercial activities. This autonomy should enable them to carry out their operational decisions without hindrance or administrative constraints. This principle would privilege ex post forms of control and methods of management by objectives, as against a priori controls and prior authorizations.

- set up between the administration and PIEs an intermediate structure for orientation, co-ordination and control. One of its essential functions would be to set clear rules to ensure consistency between the strategic objectives of the Government and the operational goals of the public enterprise. The definition of such intermediate structure would depend on the specific organization of each country.

1.7. The workshop examined especially two types of organization that can avoid direct control and intervention of the bureaucracy, while ensuring that the Government responsibilities are carried out by professionals. In the first case, that of Zambia, holding companies manage the PIE's. Main responsibilities include the definition of objectives and strategies as well as the control of results and performance, while operational responsibility is decentralized to subsidiary companies. It was also suggested that sectoral holding companies could co-ordinate development for whole branches.

1.8. The second type of organization appears in Senegal and Zaïre. A single body within the administration manages the whole Government portfolio. It was suggested that such a body could manage the whole of PIEs' income in a consistent way: thus resources could be transferred from PIE's showing a surplus to PIEs operating in areas where rapid growth requires heavy and continuing investment.

2. Investment Decisions

2.1. The problem was addressed with a distinction between macro and micro-economic issues. The first aspect concerns primarily the level of investment and its distribution between major categories: what are the goals, objectives and cost of development? Widespread disequilibria in public finances and the balance of payments, together with the increasing burden of the foreign debt and the frequent deterioration of the terms of trade, create a set of constraints which could paralyse the development effort. In this unfavorable context, which increases the fragility of African economies, and the scarcity of available resources, the best choice of priority industrial projects assumes growing importance.

2.2. Problems of under utilization of capacity and even of deindustrialization arise (examples were given concerning steel or ship-building); taking into account the small size of national markets, some of these cases might be approached in terms of sub-regional cooperation.

2.3. In micro-economic terms, PIEs' investments involve in most cases highly significant external effects. This suggests that they require two different forms of evaluation:

- the first concerns the PIE itself, and would use the classical tools of market analysis, cost and financial returns;
- the second, which concerns the whole economy, and specifically the Government, would concentrate on the aspects of national and regional development, as well as the other externalities linked to the project.

Difficult choices arise when the two analysis yield conflicting results. Thus, if the "public aspect" alone is satisfactory, the project should be handled as part of department responsibilities or, if entrusted to a PIE, be linked to a compensatory subsidy.

2.4. Participants also stressed the advantages of delegating to PIEs greater responsibility over the whole process of investment (from the identification of opportunities to the realization of the project). Thus, cases have been quoted where delays resulting from slow administrative procedures, have resulted in considerable cost overruns in execution: so considerable in fact that expected results may at the limit be reversed.

Then efficiency in execution may be more important than the factors taken into account in the prior feasibility studies.

2.5. Risk and uncertainty remain however inevitable, notably with respect to foreign trade (prices of imported inputs and outputs for example). The Government which is responsible for the long term options of the country, and is in a position to spread its risks through a large number of projects, has a better capability than the PIE to assume this type of uncertainty.

2.6. The methods of financing and of management are also closely linked. At one end of the spectrum, a supply of funds purely through the budget, will usually be linked to a method of control based on administrative procedures. At the other end, recourse to foreign financing may imply specific requirements concerning management.

3 & 4. Prices, Domestic and Foreign Trade

3.1. Price determination is an essential expression of the relation between PIEs and the Government and control authorities. A wide spectrum of methods exists from complete freedom to administrative fixation, with prior or ex-post authorization for price changes, in between.

3.2. Price policy must be considered together with the other factors which make up the environment of PIEs: tax policy, foreign exchange system, customs protection, wage policy. Consistency must be ensured between the requirements imposed on the enterprise and the way its efficiency is computed on the one hand, and the price constraints it faces on the other hand.

3.3. Numerous distortions exist within the pricing system. They may relate to inputs, sold to PIE's at too high a price, which burdens their production; or at too low a price (energy for instance), penalizing other public firms upstream, and inducing waste. They may relate to output sold at a social subsidy, which places on the PIEs the burden of a transfer policy. Prices may of course be modified to take into account social costs and benefits; such procedures need however to be made explicit.

3.4. Taking into account all such distortions, many of them inevitable, there exist no perfect markets generating a set of true prices which effectively correspond to the social scarcity of resources. The European Community also has controlled prices, in the field of agriculture for instance.

It was thus felt that international prices do not provide an adequate reference to efficiency norms: the variation of these prices and of exchange rates, sales at marginal cost (steel and sugar were quoted) make them nearly meaningless. Rather that pursuing illusory "true prices", it is more important to achieve transparency in their elaboration.

3.5. Policy trends towards price liberalization and the elimination of gross distortions was pursued in several countries. It is based on the well established fact that gross price distortions are a major source of inefficiency and in particular for PIEs which are most exposed to them.

A pragmatic approach is however essential: violent shocks should be avoided - PIEs may play a useful role in dampening negative effects of too rapid a price deregulation: breaking out of the circle of growing subsidies should not be carried too fast.

3.6. Price control is of course more necessary for consumer protection when dealing with monopolies, than in the cases in more competitive conditions.

3.7. The use of the cost plus technique has been criticized, since it discourages efforts to seek efficiency in resource use: the amount of the allowed margin increases with the cost.

Production costs can however provide a useful reference if based on norms regarding degree of capacity utilization, input coefficients, etc. PIE's then see their surplus increase with improved efficiency in resource use.

International market references are useful mostly for PIEs with an export orientation. Reference to domestic prices in some foreign countries may however serve a useful purpose.

3.8. In many cases however the most realistic approach is in terms of negotiated prices. Starting from the defined norm, the determination or change in prices depends on negotiations between the PIE and the administration (or in some cases, another PIE). Sometimes the result will depend more on power relations than on the objective content of the case.

3.9. An effective pricing policy must aim at appropriate transfer prices between firms, which localizes the responsibility for over-costs. Excessive prices can discourage the consumption of locally produced intermediate goods, or induce attempts to circumvent the PIE monopoly; they can even lead to a cessation of activity. Insufficient prices can result in high (and often illegal) rents for intermediaries or retailers, who can sell to the consumers with substantial margins.

Relative prices are important, and consistency must be sought to avoid a "transfer of inefficiency" from one firm to another, or to the consumer.

4.0. Recurrent over-costs, or costs of the development of infant industries, imposing continuing subsidies, enterprise losses or excessive prices, are still an actual problem. To what extent, and how long can one accept these infant industry costs? If structural deficiencies appear permanent, should one abandon such productions to seek others where comparative advantages allow for lower costs? The question was raised several times.

It was also stated that an investment decision implies a choice to satisfy a demand and to incur a corresponding development cost. Conditions which underlay this choice may change, and induce a refusal, while the plant is still operating, to foot the bill which was accepted at the time the investment decision was made.

4.1. Inflation creates major problems in pricing policy. It distorts the price structure, particularly inflation imported through currency depreciation, or the rise in international prices, as well as when domestic adjustment delays vary from one product to another. Uncertainty in this field is highly damaging for many PIEs, which have been planned on the basis on price or consumption structures which failed to materialize. The rigidity and delays attendant on administrative procedures of price fixation make the adjustments more difficult for PIEs.

4.2. Uncertainties and distortions are particularity important in relations with the outside world. PIEs are directly affected by the foreign exchange situation, import and export regimes.

4.3. Constraints arising from exchange scarcities have been prevalent in African countries. The method of allocating exchange has thus been a primary consideration. A timely supply often is a prime determinant of working efficiency. Foreign exchange auctioning was tried, then abandoned in Zambia, but is maintained in Nigeria. It has enabled PIEs in Zambia to obtain regular supplies of essential inputs and spare parts. The massive rise in the prices of imported goods (or goods with a high import content) led however to a revolt of consumers and political considerations resulted in the method being dropped.

4.4. Administrative allocation of currencies has its own drawbacks in terms of delays: thus smooth operations of PIEs may require an otherwise unnecessary level of stocks. More importantly, this method tends to arbitrary decisions under conditions of scarcity. Procedures are generally heavy and priorities debatable. There does not thus appear to exist any easy method of allocating satisfactorily the effects of scarcity. Even central planning as a means of exchange allocation finds here its limits. It remains acceptable when this allocation is global for PIE's.It is more questionable when it is done on a case by case basis, since delays affect negatively the performance of PIE's. Also the supply of inputs is a continuous process. A discontinuous method of yearly allocation of exchange can interrupt this flow if it not available in time.

4.5. One may however use more effectively scarce exchange through paying more attention to the purchasing function, which is all too often ignored or neglected. PIE's could realize substantial economies in this way, and also use more effectively imported inputs.

4.6. Export possibilities should not be neglected either, where PIE's can have a major role to play. Constraints however can be heavy: exchange rates, delays in the administration, or in the availability of national shipping, difficulties in arranging or supplying credit. Possibilities exist however, worth a more systematic exploration.

4.7. The choice of export products could also be improved through the analysis of the import content of exports, to draw up foreign exchange balance sheets for various activities. Such a procedure despite the difficulty in gathering the required information could improve investment decisions for PIE's turning to exports.

4.8. In view of the difficult access to the international markets, exchanges among developing countries retain their interest, despite past failures. A more systematic use of information on products available and required in African countries could prove useful.

Barter trade accounts today for a significant share of world trade. It does not offer a general solution, and carries its own difficulties, but might nevertheless in some cases supply African PIEs with outlets not otherwise available. Here also rigid administrative rules and controls might create a major obstacle: barter agreements do not abide by the rule of purchase at minimum cost.

5. Accounting and Financial Viability

5.1. While recognizing the multidimensional role of public enterprises and their responsibilities for national development, the workshop stressed the urgent need for greater consciousness in the matter of financial discipline. The case for financial viability arises for the following reasons.

- When investment decisions where made there was an implicit understanding that the investment would be financially viable. Calculations of returns on capital were stated in the project reports and feasibility studies, on the basis of which the investment decision was taken:

- The enterprise dimension of public enterprises implies the recognition that these institutions are at least in part business houses and consequently must function on the principle of a return on investment in their commercial operations.

- It was found that in practice enterprises which were financially successful were in a better position to undertake social responsibilities;

- In the last analysis, developing countries could no longer bear the burden of continuing deficits of public enterprises which had to be subsidized from public funds.

5.3. The workshop felt that the strategy of achieving financial balance should not be based on the practice of raising prices. The better method would be to stimulate cost effectiveness and reduce the cost of production. This called for a major effort to improve productivity.

5.4. Regarding the measurement of financial returns, the workshop considered various alternative formulae. The problem was related to the capital structure of public enterprises and the debt-equity ratio. In many cases the character of the funds invested in public enterprises was not entirely clear. Was it equity, was it loans, was it grants? Therefore the most practical formula would be to calculate returns, before tax and interest, in relation to total capital employed. This would also account for any possible subsidization of interest rates.

5.5. There was a technical discussion on the question of measuring the opportunity cost of capital. Various methodologies were proposed and it was generally felt that the prime necessity was coherence and consistency within the system.

5.6. The workshop viewed with concern the laxity in the maintenance of the accounts of public enterprises. In many developing countries the audited balance sheets and profit and loss accounts were greatly in arrears. It was impossible to manage public enterprises without an adequate system of accounting, both general and analytical.The flow of financial information was a vital tool of management. Further, transparency and publication of accounts could serve as a useful incentive.

5.7. A general consensus arose to underline the need for adequate systems of financial and accounting data, for giving due weight to the financial function, and for recruiting qualified staff for these positions. Some participants felt however that the use of financial criteria either for decision-making or for evaluation of PIE performance, is of limited validity where there exist external economies, distortions in the price system or non commercial functions, assigned to PIEs by the State; and where such factors are not taken into account or compensated by corresponding subsidies.

The workshop noted that some countries, such as Zambia,have given priority to the financial function and to cost accounting. The accounts in Zambia are up-to-date and used as an instrument for continuous improvement of performance.

5.8. Doubts were raised as to whether it was really possible to hold public enterprises responsible for financial discipline and financial results when the enterprises were not given adequate financial autonomy, that is the authority to organize itself its financial flows. In some cases, the real responsibility could be traced "upstream" to the government level. It was clear that in some countries, enterprises which were generating surpluses obtained increased autonomy. On the other hand, enterprises which were making losses and which were therefore dependent on the public treasury came under stricter state control. It would therefore appear that there was a logical connection between improved financial performance and greater autonomy.

5.9. Finally, while stressing the need for financial discipline and efficiency, the workshop expressed the view that profit making was not necessarily an indicator of efficient performance. Profits could arise out of favourable market circumstances or monopoly positions. It would therefore be necessary to evolve other indicators measuring productive performance, service performance and social performance.

6. Human Resources Management

6.1. Human resource management was considered one of the key factors affecting the efficiency of PIE'S, the subject assuming added importance in view of the quest, throughout the African continent, for africanization of employment opportunities, particularly in managerial skills.

6.2. Managerial efficiency is essentially determined by: the availability of competent top management; the nature of the bureaucratic, hierarchic or participative systems; the extent to which entrepreneurial ability and initiative are fostered in the enterprise; the political environment, regulatory framework and cooperative attitude of governmental authorities; and the involvement, dedication, commitment and participation at all levels of management and workers in the enterprise.

There is serious likelihood that management of PIEs have a greater chance of being efficient if their environment resembles that of private enterprises and if they have a high degree of autonomy. Conversely restrictions placed on management adversely affect their performance.

6.3. PIEs are generally organized in the same way as commercial companies with an annual general assembly, a board of directors and a managing director. It was noted however that in many PIEs there also exist informal structures, influential enough to affect performance.

In the important area of personnel recruitment and policy, government control over PIEs seems to be extensive, and most notable in the appointment of top management, be it the chief executive or members of the board. Merely to appoint the chief executive however does not provide control; it is the power to remove or renew his terms of appointment that provides the true leverage for the controlling authority.

6.4. Irrespective of the type of recruitment it is essential to choose the best national personnel available. he politization of management is widespread. Political personalities enjoy some advantages by having direct recourse to government authorities. However the turnover of this kind of chairmen or managers is often rather high. To mitigate this problem some countries have established Management Selection Boards to nominate candidates of merit.

In any case there a need for policy co-ordination in the fields of personnel policy (recruitment, reward, promotion, retirement). This is often effected through control and directives, but it could also be achieved through concerted action which would be conducive to greater solidarity. The use of job codification systems used in some countries to determine function and remuneration was noted.

It was also emphasized that, whatever the appointment process, management autonomy and authority usually emerge through the competence of management rather than through legally granted powers.

6.5. Evidence suggests that wages and salaries of PIE managers are generally lower than those in the private sector, but either similar or higher than in the civil service. In some countries a performance bonus or profit share is paid to managers and workers. The issue of remuneration, including fringe benefits, plays an role in the continuity of employment in PIE's: when wage scales are limited they risk loosing qualified personnel to the private sector.

Some of the most effective rewards and motivating forces however are non-pecuniary, such as career development, recognition, greater responsibility, promotion, national honours and autonomy. One way to generate motivation is to create a stake in the job and "esprit de corps", and to encourage a participative attitude and spirit of team-work.

The need for information systems on enterprise operations and transparency of recruitment policies and practices was emphasized. Indeed this was considered essential not only for the motivation of employees of PIEs, but equally as a positive tool of management.

6.6. In general there are insufficient numbers of competent national executives and skilled labour. This clearly points to the urgent need for enhancing training programmes and also for preventing exodus of the few skilled managers to the private sector.

In this context the issue was raised whether PIEs could function as "social laboratories" for new forms of personnel management. Some questioned the validity of creating non- productive employment through over-manning. While over-manning was often at government insistence, the problem was also due to weak , inefficient management as well as to considerations of income distribution and employment. The problem of over-manning could partly be solved through a freezing of vacancies. It was also noted that too much job protection was not always in the interest of the PIEs.

6.7. To help alleviate shortages of managers and to meet the need for training and enhancing skill development a number of options were outlined:

- the earmarking of Government and PIE funds for training purposes;
- the possibility for the larger PIEs to undertake training functions themselves;
- the cooperation of the more advanced PIEs in accepting trainees;
- the role of the "Contrat Plan" as in Senegal to achieve financial and social objectives;
- the role of managerial and technical schools and institutes, both national and international, including courses in personnel and human resources management;
- the twinning of a PIE with a counterpart in another country to facilitate the transfer of know-how and training;
- the use of management contracts with a foreign partner supplying high level executives until nationals have acquired the needed experience;

- the role of technical assistance from multilateral and bilateral sources.

6.8. Investment in human resources is expected to appreciate over time as against depreciation of investment in equipment. Indeed managers are continuously undergoing a learning process reflecting not only the years of experience but even more the desire, capacity an opportunity to learn.

Finally, the workshop recommended the setting-up in Africa of a "Top Management Club" of PIE's, to stimulate new management leadership.

7. Relations between the State and PIEs

7.1. In its previous sessions, the workshop had considered problems relating to the organization and management of public enterprises in specific functional areas such as organizational structure, investments , pricing policy, financial viability, financial accounting and human resource management. It was now necessary to take an integrated and cohesive look at the totality of public enterprise management and its strategic approaches. The workshop felt that the most critical element in the strategy of PIEs was the definition and identification of the nature of relationship between the State of the one hand and the enterprises on the other. Even if professional management is introduced into public enterprises, the problem of efficiency would remain unresolved, if there is no clear understanding about the role of the State, the role of the enterprise and the linkage between the two.

7.2. To begin with, it is necessary to understand the character, personality and perspectives of the two main "actors". The State itself has many faces. It has the powers and prerogatives of the sovereign State but it also emerges with other personalities including:

- the state as owner,
- the state as banker,
- the state as the allocator of resources,
- the state as planner,
- the state as the protector of the weaker sections of society.

These multidimensional perspectives of the State have an impact on the formulation of public enterprise policy and on the judgement of performance. Further the State and the Government are not a single entity but a conglomeration of ministries, departments and agencies each of which is undertaking some specific functions, and attempting to achieve some developmental objectives. Consequently there could be conflict and confusion in the "signals" received by the enterprise managers. The further complication was the dynamic situation and changing policies, due either to political changes or to changes in the economic circumstances.

7.3. The character and personality of public enterprises is equally complex. These organizations have a dual role to fulfil. Their enterprise dimension implies that they would act as business houses. Their public dimension views them as instruments of national policy and national development. This creates a situation of multiple objectives and in consequence multiple standards for judging performance.

7.4. Given this situation, the workshop took the view that there is a clear necessity to define as far as possible the respective roles of the State of the enterprise and in particular to identify the legitimate areas of State intervention. It was stressed that the definition of their roles depends on two basic and prior conditions, notably:

- Government intervention to guide global strategy of PIEs is both obviously legitimate and necessary to ensure consistency between the economic policy of the country and goals specific to PIE's;

- management efficiency of PIEs is directly linked to the degree of autonomy they enjoy in the operations and to the absence of prior Government controls.

  Further, the definition of the role of the State and of its relations to its PIEs depends, both on the economic system in the country, and on the particular nature and function of each enterprise.

7.5. After a substantial discussion, where numerous points of view rising from different experiences were expressed, the workshop came to the conclusion that the following management areas should be reserved for the decision making authority of the State:

1° Defining the mission and specific objectives of the enterprise,

2° Approval of the long term strategies and corporate goals of the enterprise,

3° Approval of investments,

4° Appointment of the board of directors,

5° Appointment of the chief executive,

6° Directives on matters of national security,

7° Directives on matters relating to the public interest such as wage or price policy,

8° Allocation of resources to the enterprises,

9° Receiving information from the enterprise, including monitoring and audit, in the form and through the channels the State determines.

10 Evaluation of performance.

7.6. The workshop took the view that the identification of these areas of State intervention would naturally differ from country to country depending upon the political and administrative systems. Of main importance however is that there should be a clear and prior understanding of the areas of intervention. While considering that these interventions are legitimate rights of the State, they should also be viewed as obligations which the government must discharge. Further having agreed on the areas of intervention, it would not be correct for the government in practice to extend its controls in an ad-hoc fashion or to interfere in the day-to-day management of the companies.

The Workshop emphasizes that the State and the enterprise should operate as partners, rather than in a hierarchical relation. Efficiency and motivation could be improved if decisions in the fields of State intervention were taken on the basis of dialogue and consultation.

7.7. Such a happy relationship may not be possible if the two parties are using different languages, the state speaking the language of politics and social perspective and the enterprise speaking the language of technical management. It is consequently necessary to create a situation where the politicians and government officials have an understanding of the technical and management problems connected with the running of public enterprises and at the same time that the top managers of public enterprises had a sensitive understanding of the environmental situation and the national goals.

7.8. The workshop stressed that the quality and efficiency of the relationship between the state and the PIEs at both levels of definition and operation require managerial skills in the staff of public administration.

7.9. The smooth operation of the inter-face relationship between the State and the enterprises would also call for the re- examination of the administrative structures and decision making mechanisms. Some of the countries present at the workshop described the administrative re-organization which had been attempted to achieve this end.

The workshop felt that it would be useful for UNIDO in continuation of the country studies which it had prepared, to undertake an analysis of the nature of State intervention in African countries and the mechanisms established for the purpose.

8. Evaluation of Performance

8.1. The workshop stressed that the best solution to achieve high performance levels in public enterprises was to establish an effective system of evaluating their performance. The workshop considered various purposes of performance evaluation including:

- monitoring the achievement of goals,

- ensuring that the enterprise performance was in conformity with the State's objectives ,

- having an instrument to reward or punish personnel including managers,

- having an instrument of diagnosis for the continuous improvement of management through identification of performance determinants.

8.2. The workshop recognized that unless there is a predetermination of the goals of the enterprise coupled with the prior identification of the evaluation criteria, the process of evaluation may become subjective in nature.

8.3. It was felt that the complex objectives of public enterprises and the desire to achieve social as well as business goals, make the adoption of the classical private sector criterion, profitability, not entirely suitable for the situation in the public sector. The workshop felt therefore, they should be multiple evaluation criteria including:

- financial efficiency,

- productive efficiency,

- service efficiency,

- social efficiency;

- strategic efficiency.

8.4. Some of these criteria could be stated in quantitative terms but some involved qualitative judgement. The essence of the situation however lay in the predetermination of the evaluation criteria as part of the exercise of setting corporate objectives, This may also involve the giving of weight to the various criteria depending upon the expectations and preferences of the authorities.

8.5. The exercise of evaluation is essentially a comparison between the actual achievements and some other factors. It could be useful to compare the actual achievement to:

- goals and targets,
- norms and standards,
- previous performance.

Another method of evaluation is based on inter-firm comparisons. The workshop expressed some reservations about this methodology because the majority of public enterprises are not in a truly competitive position. While there may be some usefulness in undertaking inter-firm comparisons between various African countries operating in the same business, it would be necessary to make sure that the environmental parameters are identical or at least similar.

8.6. The workshop took note of some new methodologies which are been developed to assess public enterprise performance more fairly and, in particular, to account for the social dimensions. Some of these methodologies aim at measuring 'public profitability'. It will be interesting to find out the impact and results of their application.

8.7. It was also suggested that the authorities entrusted with the task of evaluation be the same ones who have fixed the objectives. Where they exist, boards of directors can clearly separate control and evaluation functions from operational responsibility. For others cases, the establishment of an autonomous commission was suggested for external evaluation.

8.8. One major constraint to the fair evaluation of the performance of the PIEs arises out of Government intervention. This creates a situation where the Government itself is partly responsible for the results. Therefore it is necessary to devise some system of performance evaluation which would assess the performance of the totality of operations both at the Government and the enterprise level.

Evaluation could then help assess the responsibility of each level in the results.

8.9. Finally the workshop recognized that performance evaluation could not be an academic or theoretical exercise. It must be linked with all the other factors which have been discussed at the various sessions of the workshop and in particular with goal setting and the definition of the relationship between the State and the enterprise.

Annex 1

List of Participants

ALGERIA	- Mr. Abdelhamid AIT YOUNES
	- Mr. Rezki HOCINE
	- Mr. Abdenour KERAMANE
	- Mr. Omar LASSEL
	- Mr. Mohamed RABHI
SENEGAL	- M. Serigne CAMARA, *Director, Cellule des Contrats-Plan à la Présidence*
	- M. SYLLA, *Director-General, Dakar Marine*
TUNISIA	- Mr. Mohamed JABALI, *Director of Planification and Studies, Ministry of Industry*
	- Mr. Fadhel ZERELLI, *President Director General el Fouladh Steel Works*
ZAIRE	- Mr. Elur NKUBU, *Controller of Operations, Department of the Portfolio*
ZAMBIA	- Mr. MULENGA, *Executive Director, INDECO*
	- Mr. MWINGA, *Director General, Lusaka Engi neering Cy*
International Centre for Public Enterprises in Developing Countries (ICPE)	- Mr. Abdelaziz KHALFALLAH, *Assist. Director*
Institut Supérieur de Gestion et de Planification (ISGP)	- Mr. Mohamed LIASSINE, *Director General*

UNIDO	- Mr. A. HACINI, *Director of the Project Review and Appraisal Division*
	- Mr. D. MOSTEFAI, *Principal Field Industrial Adviser (Gambia, Mali, Mauretania, Senegal)*
	- Mr. F. RICHARD, *Service of Industrial Planification*
	- Mr. T. ROEPSTORFF, *Service of Regional and Country Studies*
	- Mr. Y. SABRI, *Coordination Unit of the IDDA*
Consultants UNIDO	- Mr. A. KERVYN, *Principal consultant*
	- Mr. M. CHATELUS
	- Mr. P. FERNANDEZ
	- Mr. F. MORIN

Annex 2

Agenda

June 6 1987

10 to 13H Opening statements by:

- Mr. D.S. Whaley, *Resident Representative, UNDP*
- Mr. A. Hacini, *Director of the Project Review and Appraisal Division, UNIDO*
- Mr. M. Liassine, *Director General of ISGP*

Organisation of the workshop: Mr. Richard

- Chairmanship of the meetings
- Work methods
- Adoption of the agenda

14 to 17 H. Structure and Organisation of PIEs

Session Chairman : Mr. Mulenga *Zambia*

Rapporteur: Mr. Kervyn, *UNIDO*

June 7 1987

10 to 13H. Investment Decisions

Session Chairman: Mr. Nkubu *Zaire*

Rapporteur: Mr. Morin, *UNIDO*

14 to 17H Price Policies, Domestic and Foreign Trade

Session Chairman: Mr. Zerelli *Tunisia*

Rapporteur: Mr. Chatelus, *UNIDO*

June 8 1987

10 to 13H. Accounting and Financial Management

Session Chairman: Mr. Scylla *Senegal*

Rapporteur: Mr. Fernandez, *UNIDO*

14 to 17H. Human Resources Management

Session Chairman: Mr. Camara, *Senegal*

Rapporteur: Mr. Roepstorff, *ONUDI*

June 9 1987

10 to 13H.Relations between the State and PIEs

Session Chairman: Mr. Keramane, *Algeria*

Rapporteur: Mr. Fernandez, *UNIDO*

14 to 17H. Performance Evaluation

Session Chairman: Mr. Keramane, *Algeria*

Rapporteur: Mr. Fernandez, *UNIDO*

June 10 1987

10 to 13H. Approval of the report

Part Two

SUMMARY RECORD OF THE DEBATES

Chapter I

Structure and Organization of the PIE's

Session chairman: *Mr MULENGA (Zambia)*
Rapporteur: *Mr KERVYN (UNIDO)*

Introductory statement

The rapporteur calls attention to the very wide dispersion of institutional regimes for PIEs. Some have a structure modeled on private firms. They are subject to commercial law, they have their own capital funds and management organs such as the Board of Directors and the shareholders' assembly. For them, control is mainly carried out by statutory organs. Sometimes, a large part of the functions normally attributed to the Administration is taken over by a public holding company.

At the opposite end of the spectrum, some PIEs can barely be distinguished from the administrations of which they are an extension: they obey the same functional rules and are entirely dependant on the budget for their finance. Since preliminary authorizations are required for most decisions, the autonomy of their management is much more limited.

In the majority of cases, PIEs are in an intermediary position. Their status establishes fairly precisely the limits to their autonomy, and their obligations to conform to the often numerous guide-lines they receive. Legal obligations are often similar from country to country. Their application however differs widely depending on administrative structures and habits, on situations, and sometimes merely on the personalities involved.

Operating conditions are just as diverse. Some PIEs have the task of exploiting natural monopolies which the Government mainly expects to contribute to the budget; others are entrusted with unprofitable development missions where the primary goal would be for instance to create employment and income in regions where they are especially lacking. Such PIEs can survive only through subsidies.

Some PIEs are created in competitive environments, either to compensate for a lack of private initiative or to dismantle existing monopolies. Others, on the contrary are given legal monopolies, either to control a specific supply, to create a new product line, or to offer the population a basic product at a subsidized price. Their economic and social goals are thus quite diversified. Still there are in all cases specific public objectives that form part of each country's own development project.

Finally, it must be stressed that these objectives themselves have often changed with time. Typically, over the last few years, the reduction in resources available in the budget and in the balance of payments has led to increasing attention being paid to financial equilibrium and a rigorous management of the resources they receive. Thus, it is not uncommon to see firms, initially created mainly to supply jobs, being criticized today for remaining over-staffed. Others now have to carry on their own account, the burden of consumer subsidies which the Government cannot, or no longer wants to, pay out of its budget.

Thus PIEs have very different structures and goals, they face a large variety of circumstances, and must sometimes deal with inconsistencies in policies. Still the evolution over the last few years shows evidence of a common trend: they are required to become more efficient. This can be defined in terms of fewer resources, human, material and financial, used to reach the prescribed goals. Structures and modes of organization must be assessed with this criterion in mind.

Generalizations are difficult. There are both efficient and inefficient PIEs in all organization systems and control regimes. Nevertheless, some modes of organization appear more favourable: results are more likely to be satisfactory if the managers of the public firm can freely make their decisions on day-to-day management, within the framework of the objectives they have been assigned. In other words, a posteriori supervision is more likely to foster a sense of responsibility and efficiency among managers, than a priori supervision requiring preliminary authorizations.

Experience seems to show that, while a system of administrative regulations does not necessarily choke a public firm, it is not an efficient deterrent to bad management either. Civil servants of the supervisory departments cannot take the place of the managers, but they can more easily paralyse decisions.

Thus the criterion of economic efficiency suggests a reduction of the system of rigid preliminary authorizations, and an extension of more flexible procedures for ex-post evaluation of the management of public firms.

It has been stressed in the opening session that financial results are not a significant criterion for evaluating public firms, and there is no disagreement on this. Experience also shows however that firms with satisfactory financial results actually enjoy greater autonomy in management. This is true in all legal systems. At the other extreme, it is the firms in deficit that have been subject to the most stringent control. Given that a certain degree of autonomy encourages efficiency, positive financial results leading to greater autonomy may thus set off virtuous circles, just as operating losses may create vicious circles.

The case of Zambia

The Chairman, Mr Mulenga, then explains the organization of the public sector in Zambia. At the top, there is a very large holding company, ZIMCO, which owns all public shares in the fields of transportation, telecommunications, industry, trade and finance. ZIMCO is entirely state-owned. Its Board is chaired by the President himself, and its members include several Ministers, as well as some officials such as the Governor of the Central Bank. Businessmen are also appointed, in view of their personal competence. ZIMCO is not strictly speaking a parastatal but rather a company subject to commercial law.

Similar structures prevail in the intermediate holding companies, such as INDECO which holds the shares in most of the industrial operating firms (it has 42 subsidiaries). Initially, the goal of the Government was to transfer most of economic power into the hands of Zambians. The Boards then were presided over by Ministers and the members were civil servants. The results however were not satisfactory and the Government grew aware that this political intervention had a negative effect on management. The politicians were then replaced on the Boards by private citizens chosen on the basis of their experience in business matters.

It is clear however, that general guide-lines coming from the Board of ZIMCO reflect the priorities of the Government. In this system, firms enjoy considerable autonomy, while remaining at the same time bound by these national orientations.

The specific role of the public sector

Other speakers also insisted on the necessity to keep the public sector present in the industrial branches. Even though present constraints put the stress on commercial efficiency, the longer-term goals of development must not be overlooked, and PIEs are a privileged instrument to those ends.

The efficiency of PIEs cannot be assessed in the abstract. There are differences between a company set up to carry out part of the central plan, with the Government as the essential driving force, and a pubic firm following the model of its private neighbours, - differences which affect the whole range of efficiency criteria. This political dimension can never be neglected.

Conditions for efficiency

Other UNIDO consultants agreed with the rapporteur that there was no clear-cut relationship between mode of organization and performance. The main determinants of performance must be sought elsewhere. The following conditions were mentioned:

- a clear definition of the goals and objectives of the PIE.

- an exact specification of the degree of autonomy of the managers with respect to the controlling authority.

- the quality of the managers, in particular the Managing Director.

- the financial discipline of the organization.

- a consensus on the criteria for evaluating management. As has already pointed out, profitability is not necessarily the determining criterion.

Within the range of options of national policy, PIEs can be assigned different tasks. Some will primarily have a commercial function, others will mainly have to pursue development goals and a mixed category will have to combine both types of objectives.

It is probably preferable that the legal structures be in harmony with these different finalities. More importantly however, the evaluation criteria should correspond to the firm's main objective. Neither should a development firm be required to be profitable, nor should a commercial firm be allowed to justify losses on the pretext of social objectives.

Concerning the commercially oriented type of public firm, speakers also stressed that competition with the private sector, national of foreign, can be highly beneficial to PIEs, as long however as they are given enough autonomy to be able to react with the required flexibility.

Another point was that supervision carried out by specialized holding companies can be more efficient than administrative regulation. It can allow for a better understanding of management problems, and serve as a framework for efficient cooperation between PIEs.

Further, the 'Planning Contracts' (Contracts Plans), the use of which is getting more widespread following the lead of Senegal, have the advantage of specifying those objectives which the firm must reach by its own means, and those on the contrary which imply some Government intervention, in the form of subsidies for instance, or other action.

Chapter II

The Choice of Investments

Chairman of Session:	*Mr NKUBU*	*(Zaïre)*
Rapporteur:	*Mr MORIN*	*(UNIDO)*

Introductory statement

Four questions are raised: the macroeconomic aspect of the accumulation process, the micro-economic aspect of the criteria for project selection, the problems of finance and finally the cycle of planning and realization of investments.

The volume of investments is one of the most important regulators of the level of the activity in any national economy: it is not easy to see how this crucial function, necessarily centralized, can be combined with the tendency towards decontrol that is taking shape in many African countries; or how it is compatible with the autonomy of decision of public firms, the advantages of which have been stressed.

Investment projects are subject to a double evaluation. On the one hand, economic return must be calculated using well known instruments such as the present value, the expected rate of return and the opportunity cost of capital. These calculations can be purely financial or they can include other elements embodying economic and social costs and advantages.

On the other hand, the projects must be embodied in a broader industrial strategy oriented by political choices. In this connection, it must be stressed that even in large private multinational firms, strategic choices of orientation cannot be precisely analysed in economic terms, because of the uncertainty inherent in any long-term commitment. Economic or financial analysis can condemn certain projects, but it does not ensure that all errors will be avoided and even less that the strategy will be optimal.

Finance problems impose additional constraints on the level and structure of investment. Degrees of freedom in the choice of financing are often limited. Indeed, each potential source of funds carries its own problems:

- the budget of the State, but the increasing difficulties of the last years have led in most countries to a severe limitation of budgetary resources;

- the drawing on national saving through the banking system, but the volume of savings is often small, so that bank credits become a source of inflation;

- the own resources of the public firms, but their financial results are often so poor that they cannot even finance their own reproduction;

- foreign private capital, but it is only available for projects where profitability is ensured already in the short run and this strongly reduces its use for development projects where profitability emerges only after a longer period of time,

- foreign public capital, but the multilateral organizations who are the main suppliers of such funds often impose conditions that are incompatible with the orientations of national policies.

Finally, the last point raised by the rapporteur concerns the realization of the projects. Long delays frequently occur between the conception and the decision phases, and also between the decision and the start of production. Such time lags always result in additional costs, if only because they create the need for intermediary financing. When integrated planning is used, the delays can cause even more damage, for instance if an essential input is lacking for firms created downstream in the production process.

The case of Zaïre

The Chairman, Mr. Nkubu, then gives some insights into the organization of the public sector of Zaïre. Overall, the sector is managed by the "Portfolio of the Republic," which comprises the firms "inherited" at independence and those nationalized or created since then. It also includes a number of parastatals which are not really enterprises but rather extensions of the central administration (such as the Social Security organizations) and whose deficits weigh heavily on the overall results of the portfolio.

The structure of control over firms in the portfolio has changed considerably over time. There have been a Portfolio Committee linked to the Ministry of Finance; an Institute of Management of the Portfolio, which was a heavy structure organized as a holding company; an autonomous Ministry of the Portfolio, or a Department of the Portfolio within the Ministry of Finance. All these concern financial supervision; technical supervision is carried out by other Ministries (Industry, Commerce, Mining, etc.). Finally, it is the Ministry of Planning which centralizes the investment projects of the public firms and discusses their financing with the international organizations.

The multiplicity of decision and control centres as well as the instability in the structure of supervision has of course carried negative implications.

The discussion then addresses the four themes suggested by the rapporteur.

Macroeconomic aspects

First of all, it was stressed that the degree of centralization of decisions should continue to be dictated above all by the basic policy choices of the economy, be it planned, mixed, or offering the public firms a more liberal framework for operation. Even in the case of central planning however, a certain decentralization not only of execution, but even to some extent of decisions, can be beneficial though overall planning should remain the competence of the State.

Uncertainty is inherent in the development process, and corresponding risks should be carried by the State. This leads some people to suggest an approach in terms of "portfolio management" or of risk-sharing. Some projects will be more successful than others, and some will be profitable while others will not. The State must take a global view of its projects, just like the large multinational concerns whose various branches perform very differently. What the State must aim at is an overall result, linked to the development process, while realizing from the start that some projects are bound to fail in an unforeseeable manner.

Of course, this philosophy does not imply that preliminary studies intended to minimize the risks of error are not necessary. Here, many shortcomings were pointed out, as analytical instruments, even when available, were often neglected.

The problems worsened these last years, as the international environment became less and less favourable. The falls in export prices which caused external and budget deficits, as well as the burden of the debt, have reduced available resources. As a result, it is becoming increasingly difficult to finance the public sector, which remains a central element of the structure of the economies. Elements of a vicious circle are even appearing. The poorest countries, the least attractive for the private sector, are those where the role of the public sector is most essential, but also where the resource limitations are most binding.

The countries which are now attempting to escape this dilemma through promotion of the private sector, do not possess the appropriate instruments, either. In the past, investments were too often attracted by giving firms monopoly positions, thus creating low-performance enterprises. How can they be stimulated in the more competitive framework which needs to be set up?

The problem of competition gave rise to a debate. The advantages of competition as a stimulus for productivity are not questioned. However, the small size of the markets frequently prevents competition from being organized inside the country. Moreover, the "costs of underdevelopment" (one can list the insufficiency of infrastructures, the deficiencies in the maintenance of equipment, the often inferior quality of available inputs, the lower productivity of factors of production) imply that, overall, African firms are not yet capable of dealing with international competition. These excess costs are a macroeconomic problem for which the firm cannot be held responsible. Only the State is capable of handling them.

Micro-economic aspects

The evaluation of projects of public firms must take into account two viewpoints. The first, that of the firm, refers to the viability, or profitability, of the project; the second corresponds to the public aspect, and refers mostly to the externalities that come along with the project. If both aspects are equally favourable (or unfavorable), there is no conflict and the project can be approved or rejected without hesitation. Difficult cases arise where the conclusions are satisfactory only according to one viewpoint. If it is the viewpoint of profitability, the overall effect on development must be taken into account. If on the contrary the project is not profitable but carries substantial positive externalities, it would probably be best to have it carried out by the central administration rather than by a public firm.

This type of conflict was illustrated by the example of Dakar Marine: at the time of the closing of the Suez Canal, that firm had been equipped with a floating dock to carry out the maintenance of tankers traveling around the African continent. At present, this dock, which operates way below full capacity and represents a heavy burden, ought to be closed down in order to cut the losses of the firm. However, medium-term prospects are at stake, as well as a number of complementary services, and only the Government has the competence to make such a decision.

Several participants also pointed to planning errors. The most typical are based on excessively optimistic market studies, and lead to oversized projects which are unable to reach a minimum break-even point. Non viable projects can also result from complicity between the foreign suppliers of equipment and some political decision-makers. The example of Zaïre's steel industry was mentioned: a 300 000-ton capacity plant was set up at great cost, even though it was justified neither by input availability nor by the potential market. Its costs are too high to give it access to the neighbouring markets and it has virtually ceased production.

It was suggested that some Governments should as a matter of priority develop their own independent capacity of project evaluation, or that they make a more systematic use of the competences of the experts placed at their disposal by the United Nations.

Problems of finance

Several participants have elaborated on the difficulties pointed out by the rapporteur and also raised the issue of mixed projects. Where substantial externalities come along with a commercial vocation, an appropriate financial combination would see the State directly taking over the costs connected with the social aspects, while the capital of the firm carries only the burden of the productive investments.

The group also paid much attention to the question of delays. Some people put the blame for the frequent overshooting of estimated costs on the sluggishness of decisions, while others insisted that it can result from too much ambition. When too many projects are undertaken simultaneously, none of them get finished in time.

On the Algerian side, the stress was put on the consequences of State intervention at all stages of the process, from decision to execution, and on the effect of administrative procedures in lengthening delays. Cumulative delays can result in final costs turning out way higher than those estimated initially. Procedures that minimize the avoidable delays can have more influence on the results than more refined techniques for choosing between the proposed alternatives.

Chapter III

Prices, Domestic Market and International Trade

Chairman of Session:	*Mr ZERELLI*	*(Tunisia)*
Rapporteur:	*Mr CHATELUS*	*(UNIDO)*

Introductory Statement

The Rapporteur starts with the point that it would not be realistic to seek a general system of "true" prices reflecting actual scarcities or real costs. Distortions are inevitable. The most important thing is to know these distortions and to limit them. In other words, a certain transparence of prices and costs should be attained, so that they can be used as correct signals for management.

Specific problems are addressed from this point of view, notably: distortions, policy choices, adjustment problems, and questions of exchange rates and currency allocation.

a) Since "false" prices frequently prevail, it is important to interpret correctly the signals or the information revealed by the distorted price system and to assess its social cost in terms of an under-optimal allocation of resources. The principal sources of distortions are the following:

- taxes, subsidies, and prices fixed lower than costs (often as a weapon against inflation) which create a gap between private and social costs.
- trade tariffs and the restrictions on imports (at the limit, they can induce, for some strongly protected productions, negative value added when it is measured in terms of international prices).
- exchange rates when overvalued (or sometimes undervalued).
- very low or even negative real interest rates, which do not in the least reflect the actual scarcity of capital.
- excess costs due to over-manning.
- delays in some prices adjustments to cost inflation.

b) The choices of price policy are of direct concern to the PIEs:

- inputs, if they are too expensive, create excess costs; if they are too cheap, they lead to waste (and imply losses for firms at earlier stages of the production process). The access to imported inputs is particularly important; in the worst cases, if this access is badly handled production can be blocked.

- for outputs, there is often a temptation to impose prices which do not cover costs, with increasing deficits; this can be seen as an anti-inflationary policy. Most of the time, it creates shortages which give rise to parallel markets. Intermediaries start earning a rent, and firms downstream in the process receive implicit subsidies. The distributive effects of this are ambiguous.

An attempt can be made to get out gradually of such situations by legalizing a double market, with a controlled price for priority consumers and a flexible market price for the others. Recent reforms in China have introduced a variant of this double price system: firms are required to supply a quota at the regulated price, but they can sell any excess quantity at a market price if they have succeeded in producing more than the quota. This is a stimulus for production, as well as a test of the level of demand, which is useful for investment decisions. Temporary solutions such as this can help smooth adjustments.

Prices themselves can be fixed on the basis of long-term marginal costs, of a required rate of return on capital or on production costs ("cost plus"). A reference price reflecting social opportunity costs can also be used (in which case the calculation must be explicit).

c) Exchange rate policy is only one part of a more global set of policies, referred to as structural adjustment policies. No exchange rate can be defined as an equilibrium without regard to the concrete context, such as the price structure, trade protection policies, etc. If the definition of an adequate exchange rate policy is difficult, experience shows however that excessive over-valuation has negative effects. It may thus be useful to resort to a "tâtonnement" procedure (such as the auctioning of foreign currency, as practised in Zambia or Nigeria).

The current pressures in favour of brutal devaluations, price increases for public firms, abolition of subsidies, liberalization of imports, and suppression of quotas and protections could very well cause too violent a shock. An economy cannot at one go move unharmed from a system where all prices are blocked to a system where everything depends on the market.

The process of international opening up, while necessary, needs nevertheless to be controlled to avoid a vicious inflationary circle. The PIEs can serve as an instrument for gradually absorbing the shocks.

d) With regards to foreign relations, four rather separate problems should be discussed:

- The determination of the exchange rate (simple or multiple) and the process of foreign currency allocation (administrative allocation, convertible currency, auction).

- The system of authorizations for imports: conditions, delays, types of required justifications, monopolies for the imports of certain products, emergency procedures, link with the allocation of foreign exchange.

- The conditions governing imports: determination of priorities, invitations to tender, role of credit facilities for suppliers, international finance, conditional aid.

- The last point concerns exports, including the choice of orientations, with reference to import content, advantages offered to exporting firms, commercial policy, bank credits and guarantees.

The debate around this set of issues can be divided into two parts. The first deals with the process of domestic price formation and its implications; the second with the problems of exchange rates and foreign trade. This division is of course somewhat artificial, but it can help clarify the presentation. A fairly complete description of the mechanisms of price formation in Algeria and Tunisia was given. This information will be summed up first, as it sheds light on the subsequent discussion.

Price formation in Algeria

One of the first points made is that the currency does not actually reflect economic value. The dinar in terms of which a salary or the payment for a domestic service are expressed is different from the dinar which buys a rationed input, in turn different from the dinar which pays for an import. Just as prices do not reflect scarcity or opportunity costs, currency availability does not give any possibility of choice.

The second point is that planning is carried out in physical terms and applies mostly to the quantities of inputs, outputs, and employment. Prices are not directly taken into account, so that they do not reflect the financial operating conditions of the firm. Price fixation is not even carried out by the supervisory administrations (Ministry of Industry, or Ministry of Planning for investments), but depends on the Ministry of Commerce.

This situation has several drawbacks.

a) The Ministry of Commerce is concerned mostly with the interests of the consumers and fixes prices at the lowest possible level. This prevents all accumulation within the PIEs and makes them entirely dependent on budgetary resources or on bank credit. This tendency has done quite far. Thus in the recent reorganization of the public firms, which was undertaken to reduce their size so as to make them more easily managed, the Government decided in several cases to set up distinct companies to produce and commercialize the same product.

b) A system of analytical accounting is generally not available, and the central Administration is not aware of the actual situations. Consequently, prices are often fixed in a relatively arbitrary fashion, through a negotiation process. Thus results frequently depend more on the respective strength of the parties than on the quality of the underlying data. The inclusion of the various externalities in the negotiation especially leaves much to be desired.

c) As a result, the principle according to which prices reflect normative costs based on input, energy, and labour coefficients is rarely applied.

d) Delays in examining proposals are often considerable. During periods of rapid cost inflation, this causes substantial losses; it can also block the output or the sale of new products until the PIE knows what price it can charge.

e) The prices fixed in this manner (for inputs as well as outputs) are sometimes quite different from those used initially to evaluate the project, and this makes the planning process uncertain. The tendency to fix prices at levels which are too low and do not reflect actual scarcities, results either in rationing (as is the case for electricity) or in the development of an underground market, as for most construction materials.

From the point of view of the PIE, prices play a decisive role at two distinct stages.

a) In the field of industry, the analysis of new projects mostly concerns import substitution, so that the norm of acceptance is based on foreign currency costs. A project is in general accepted if the PIE that promotes it can show that carrying it out will save foreign exchange. (One should perhaps note a remarkable feature of this norm: it attributes a zero cost or value to domestic inputs and factors of production, and thus does not guarantee that the value added will be positive, even in gross terms. Moreover, it does not take into account the physical or financial depreciation of the imported equipment).

b) At the moment when sales prices are revised, or when prices are negotiated with the suppliers. It is always a negotiation, either with a Ministry or with other firms. When the domestic market is sufficiently competitive (such as in the fields of studies or engineering), prices can be negotiated rather than being fixed by the authorities. Here also, international norms are starting to appear: preference must be given to a domestic firm if its offer does not exceed that of the best foreign firm by more than 30%. Some prices also use the same type of reference, as in the case of steel, where the norm is the domestic CECA price plus 20%.

Control over PIEs sometimes also has negative effects. Thus it induces a preference for public invitations to tender which cannot be criticized by the authorities. This happens even when such a procedure is not compulsory, and is not the optimal formula, for example if there exists a close connection with a trustworthy supplier who has good knowledge of the needs of the PIE which is its client.

The difficulties linked to these forms of price fixation are well known, and attempts are made to limit the number of products that are considered strategic and for which any modification is subject to a preliminary authorization. In addition, cumulative revisions when the prices of certain basic inputs change, require a considerable amount of low-productivity work.

Price formation in Tunisia

Before the liberalization programme of 1986, the Tunisian system was equally complex. Depending on the nature of the good or service, prices depended on five types of mechanisms:

a) For basic products, prices were fixed imperatively by the authorities, and were uniform over the whole territory.

b) For scheduled products, prices were also fixed by the authorities, but after discussion with each producing firm, and could vary from one firm to another.

c) For less essential products, the firm itself could adjust prices (self-determined) on the basis of production costs, subject to ex post approval.

d) For services, prices were free but monitored, with the authorities refraining from intervention as long as there was no visible abuse.

e) Some prices were absolutely free and adjusted instantly to supply and demand. This market determination applies to the prices of many foodstuffs.

Since the middle of 1986, the Tunisian Government is engaged in a process of price liberalization. In June of 1987 this process already applies to over half of the national production. A programme which is to run until 1991 has been established and includes the complete liberalization of the prices of products (ending with basic consumption goods). It will also extend to factor prices (interest rates, wages and salaries). It will include the suppression of quantitative restrictions on imports.

Other more or less parallel movements are running in other countries according to their own specific schedules, such as in Senegal for example, which is also undertaking a structural adjustment programme.

Industrialization in Tunisia was often given excessive protection. The weaknesses of this policy became apparent when oil income declined. Today, to reduce the external deficit, many more industrial firms should become export oriented. But they are unable to do so because the prices of domestic inputs reflect the inefficiencies of the system.

The Government has even asked some PIEs to accept contracts for exports at marginal cost. There is a risk however that the firms and the country itself might be emptied of their substance, since the import content of exports is widely under-estimated. Indeed, many costs which are considered domestic contain in fact a fairly large share of expenses in foreign currency.

Pricing policy

A UNIDO consultant then presented ten propositions based on his experience as a national Civil Servant working on price policy for public firms.

a) The more the Government expects the PIEs to make profits or at least to balance their financial accounts, the more important for them is the price policy. In all cases, it remains a very important instrument of resource allocation.

b) Price policy cannot be considered in isolation. It is part of a larger setting which includes wage policy, tax policy, subsidy policy, exchange rate policy, trade tariff policy, etc. Thus there is no ideal price policy which could be defined with great generality.

c) This policy must be in harmony with the firm's environment. If the environment is competitive, such as for example in the case of the export-oriented firms, the most sensible policy is to leave price fixation to the market. But when there are monopoly conditions (be it for public or private firms), the central authority must intervene to ensure the equity of prices.

d) This equity concerns the seller as well as the buyer: the seller must be allowed to earn a living if he is efficient (unless he can be subsidized); the buyer should not be made to carry the burden of excessive costs or profits.

e) The formula which adds a margin to existing costs must be absolutely proscribed, because it encourages inefficiency. Indeed, the less efficient the firm, the higher its costs, and with a proportional margin, the higher its profits. If prices are to be based on costs, the structure of costs must be examined and norms must be imposed, for example concerning input or labour coefficients or the degree of capacity utilization.

f) In an integrated system, transfer prices play an essential role: someone's sales are someone else's purchase. The whole chain of prices must be considered.

g) In such cases, an approach in terms of an integrated portfolio can be used. It is impossible to compute a price system which is perfectly equitable for each of a set of firms; but it is possible to settle on a system that is rational, in the sense that for all firms together an adequate rate of return on utilized factors of production is obtained.

h) Prices can have very different social meanings, as they apply to basic consumption goods or to luxury goods. This dimension must be taken into account, in addition to the equity for producers and buyers. Price policy can have undesirable results unless it is supplemented with a system of indirect taxes or even subsidies.

i) In the fixation of prices, reference to costs cannot be avoided. It should be emphasized that these costs must be based on norms of efficiency.

j) Finally, there is the problem of transparence already addressed by the rapporteur. Subsidies must appear explicitly in the budget. This compels the authorities to give a justification for the distortions they create in the price system. It should be stressed that the burden of taxes is not always borne by those who pay them, and that subsidies often do not benefit those to whom they are granted. In the absence of the required transparence, it can easily happen that subsidies financed through taxes paid by the mass of the poor in fact benefit the more wealthy categories of the population.

Relative prices

In the discussion which followed these presentations, several speakers insisted on the importance of relative prices in the orientation of the economies and in the allocation of resources. The agricultural sector is not the only one where production responds to this type of stimulus and where bad mistakes have been made, either by sacrificing the production of food for export-oriented crops (as was the case in Senegal) or through relative prices operating a transfer of resources from agriculture to industry.

The relation to international prices

Several speakers stressed that international references do not provide useful signals. Indeed, there are fundamental distortions in the industrialized countries for the prices of food products whose exports are often heavily subsidized. The prices of raw materials fluctuate too much to provide signals for long-term investments, and now the instability of exchange rates has extended this uncertainty to the prices of industrial products.

Under these conditions, they consider that the Governments of the African countries cannot rely on any exterior norm which escapes their control as well as that of their firms. On the contrary, the Governments should rather keep the price policy as an essential tool for an allocation of resources conforming to their national priorities. Price norms must be based on the concrete situation of firms, even if this leads inevitably to the incorporation of certain elements of inefficiency which then spread to the whole cost structure. However, it is remarked that such a policy must be fairly selective, so as not to impose on the Administrations too large a burden which they are unable to manage.

Other speakers stress that a reference to international prices cannot be discarded altogether. This is especially true for exporting firms. Even if they are efficient, they cannot be made to support the consequences of the inefficiency of firms upstream in the production process, which is transmitted through the structure of costs. Should the State then take over the burden of these excess costs, or should it allow firms to import all their inputs? And how far should import substitution on the domestic market be taken, thereby accepting the price increases due to a structural lack of competitiveness?

It thus appears that the type of price policy is linked to the whole choice of a development model. Two cases must be distinguished.

a) Under the first, the country accepts international price norms, and must then play the comparative advantage game, even if this involves some undesired specializations. The economy that chooses this option is inserted in the international division of labour, and enjoys all the advantages of that system in terms of cost reductions and of pressure for more efficient management. However, such an economy will inevitably remain extraverted and will only reach a small degree of national integration, since, to be able to export, industry will have to buy its inputs at minimal costs, and will not be able to carry the learning and development costs of new firms created at earlier stages of the production process.

b) The other case occurs where policy aims mostly at national industrial integration. Here, price policy must accept the inefficiency of new firms, even if it uses norms which create incentives for cost reductions. This inevitably penalizes firms at subsequent stages of the process. They will not be able to compete on the international market, and thus industrialization will be based on import substitution rather than on the development of industrial exports.

Obviously, however, such a dichotomy is too clear-cut, and most situations are intermediary ones. (As was pointed out earlier, even in Algeria the choice of projects is oriented by the resulting economies of foreign exchange that is, by the relative cost of imports.) An actual choice exists only for the countries which can ensure adequate supplies of foreign exchange by exporting some basic product they produce under advantageous conditions, without the necessity of having an export- oriented industry.

The exchange rate system

In this respect, the countries participating in the seminar can be divided into two groups: those with a fixed exchange rate (Algeria and the members of the Franc Area), and those with a flexible exchange rate who have had to deal with more or less substantial devaluations (Tunisia, Zaïre, and Zambia). These two groups present different solutions to the common problem of foreign exchange shortage. The functioning and consequences of thee regimes were described in some detail. They will be summarized before moving to the presentation of the debate.

1. The experience in Zambia

The participants showed considerable interest in the experiment of the sale by auction of available foreign exchange carried out in Zambia.

The procedure was the following: every Saturday, any company in need of foreign currency submitted its demand, and the price it was prepared to pay, to the committee of the Central Bank.

The allocation was then carried out by starting with the highest bid and then lowering the price until all the week's available currencies were sold. The rate of the last accepted bid was then applied to the whole quantity of foreign exchange and stayed in force until the following week.

However, this system of flexible exchange rates has caused a strong depreciation of the national currency. Initially, the exchange rate was 2.5 kwachas per dollar and within 18 months, it had fallen to 21 kwachas. Of course, the prices of imported goods increased in proportion, implying a very sharp rise in the cost of living. Since wages were only partially adjusted, strong social tensions appeared and the Government decided to drop the system, to revalue the currency (to 8 kwachas per dollar) and to revert to a fixed-rate system.

While it lasted, the system of auction nevertheless had some positive consequences. In the first place, it led to a more equitable distribution of the available exchange. A firm that absolutely needed foreign exchange was always sure to get it without delay, and without depending on the more or less arbitrary decision of a group of civil servants. Second, it induced a more rational behaviour on the part of the firms, which submitted bids only according to their actual needs, with prices reflecting the degree of priority attached to them.

On the whole, the PIEs of the INDECO group considered the experiment positive. Better supply channels for raw materials and spare parts allowed the majority of them to increase their production despite the limitation of domestic demand caused by the fall in the standard of living. Further, the liberalization of prices allowed PIEs to adjust their sales prices to production costs without the delays which had often caused losses in the past.

In addition, the liberalization of imports allowed for competition with foreign products and led to some productivity increases. However, the PIEs were protected from excessive competition by the depreciation of the currency, which caused the prices of imported products to rise faster than domestic costs.

Today Zambia has come back to an administrative allocation of foreign currencies and to a supervision of prices. Any request to increase the prices of consumption goods must be submitted to the Prices and Incomes Commission. INDECO has informed its subsidiaries that such adjustments could be requested on one of three bases:

- a cost increase, with the difficulties pointed out earlier of defining acceptable norms;

- the required rate of return on invested capital;

- the gross income necessary for servicing the debt: through the depreciation of the currency, the charges linked to a debt in foreign currency have become very heavy for firms that had contracted such a debt.

However, the central administration is reluctant to accept these criteria because it feels that these demands are often exaggerated. Indeed, public firms are on the whole less efficient than private firms, which leads them to ask for higher prices. These problems surrounding price formation could jeopardize the viability of the PIEs, even though they are a central element of the national economy.

Presently, the exporting firms receive priority in the allocation of foreign currency. Moreover, a firm asking for foreign exchange has to show that the use it made of the previous allocation was in conformity with the authorization. It must also present 2 or 3 offers to show that it intends to buy on the cheapest market.

2. The experience in Zaïre

Zaïre is the other country whose currency has been (and still is) depreciating rapidly, but without the mechanisms of price formation or of supervision of the public firms being adapted to these conditions.

For certain basic sectors (energy, transportation) there is a system of scheduled prices, for which any change is subject to the usual procedures of the submission of an application and of discussion with the competent Administration. With yearly rates of inflation (and of external depreciation of the currency) of around 50%, the delays needed for approval of the new prices cause continued losses for the firms that are subject to this procedure.

In addition, the majority of firms are subject to a system corresponding to the process of self-fixation described earlier. It is more typical here to see the buying and selling public firms engaging in negotiations. Control intervenes only for arbitrage, concerning mostly the nature of the costs which can legitimately be taken into account.

The rhythm of inflation (which, incidentally, is perpetuated by the widely used "cost plus" method for price adjustments) also implies that the supervision of public firms no longer makes much sense. No provisional budget is valid for more than 2 or 3 months, and no evaluation of management is feasible under these conditions. The results depend first and foremost on the (positive or negative) margins earned in the course of certain commercial operations.

The shortage of foreign exchange is the primary source of these difficulties. In the past, firms which needed imported inputs would submit their request to a committee in the Ministry for National Economy. Having secured the authorization of that committee, they would apply to the banks, which in turn would obtain the curren-y from the Central Bank. This system stopped functioning as soon as the Central Bank was no longer able to supply the currency corresponding to the licensed imports.

The Government then decided to put up a "National Credit Company," whose role was to regroup the purchases of the public firms and to carry them out under the best possible conditions, but the experiment did not prove very convincing.

Exporting sectors such as mining and coffee are allowed to keep for their own use part of the currency earned through their exports. In addition, a certain priority is given to the service of the external debt. Because of these two withdrawals, and also because of more or less legal imports of consumption goods, what is left of the available foreign exchange is insufficient to satisfy the basic needs of the firms. As a result, there is a permanent excess demand which causes a continuous increase in the price of foreign currencies, and thus also of imported inputs and of the price level. This inflationary process has not been mastered up to now.

For firms selling on the domestic market, such as the railways for example, the burden of the external debt, which is linked to imports of equipment, becomes overwhelming. Even for exporting firms such as the copper producers, the major part of the debt in foreign currency appearing on the balance sheet (expressed in zaïres) results from exchange rate differentials.

In such an environment, the losses incurred by public firms cannot be blamed on the lack of competence of their managers.

3. The experience in Tunisia

The example of the Tunisian steel industry is then put forward. This is an integrated firm (from ore smelting to wire drawing) with a turnover of about $100 million and a monopoly on the domestic market; it belongs almost entirely to the State who requires it to show balanced financial results.

In 1986, the Tunisian dinar depreciated by about 35 to 40%. For the firm, about 45% of the direct costs are payable in foreign exchange (including most of energy, which alone accounts for more than 30% of inputs). Some domestic purchases have an import content as well. Thus devaluation implies a cost increase, which must eventually spill over to prices. This principle is admitted by the central Administration. But since the firm's prices are controlled, a procedure of submission and discussion of the request must be gone through. The request was submitted in August and the answer came in January, so that the firm suffered losses for five months.

Sales prices of the firm are about 20% higher than those of imported steels. Of course, the international crisis of the iron industry makes it possible to import steel at a price way below that of the domestic CECA market. Thus the Tunisian price is close to the internal European level, which remains an acceptable norm.

It should be added that, overall, the firm displays balanced accounts. The devaluation, apart from the losses it has caused through temporary gaps between costs and sales prices, also increases the burden of the external debt resulting from supplier credits for imported equipment goods.

The import procedures do not pose any particular problems. The firm gets an annual allocation of foreign exchange. The purchases are carried out through public invitations to tender and are supervised by commissions whose hierarchy corresponds to the importance of the contracts. However, the delays for acceptance are highly variable, so that the firm needs to place orders well in advance; as a result, the average level of inventories is too high and corresponding financial costs arise.

At a more general level, the Tunisian import system is in the process of being radically overhauled. There used to be four procedures:

- import license delivered for a specific operation, which was the most rigid system,

- annually delivered import authorizations, described above,

- import certificates, corresponding to an emergency procedure and made available without formalities, and

- the temporary admission regime, which is limited to firms which export their whole production.

This system is gradually becoming more flexible. About 30% of the products which were subject to the license have been transferred to the import certificate. At the same time, spare parts that are not manufactured locally can be imported absolutely freely. Since 1987, a firm which exports more than 15% of its turnover is allowed to import freely all its raw materials and semi-finished products. Also, a procedure called "EXIM" has been set up, through which a firm exporting less than 15% of its turnover can import as much as the value of its exports.

For new projects, official acceptance entails the authorization to import the equipment. Their productions stay protected during 3 years so as to allow these young industries to complete their learning process.

Together, these dispositions allow export-oriented firms to escape the major part of the expenses which could result from a transfer of excess costs through the inefficiencies of some firms upstream of the production process. In fact, since foreign exchange still carries some scarcity premium, some of these procedures are equivalent to export subsidies. It should be ascertained that they are justified , and that the import content of the exported products does not in fact lead to a degradation of the balance of foreign payments.

4. The countries in the Franc Area

Such countries, with a fixed exchange rate, do not experience the same type of problems. For them authorization procedures exist only concerning purchases for which payments in other foreign currencies are required. This can lead to a preference for placing orders inside the Franc Area, even at prices higher than those obtainable abroad, to avoid nuisances and delays. This situation implies the same disadvantage as tied aid: that a supplier being imposed despite the fact that it is not the cheapest.

Attention is also called to the variability of exchange rates. In particular, the depreciation of the dollar with respect to European currencies has had negative consequences for the countries in the Franc Area. Many of their exports are valued in dollars, while their traditional flows of imports come from France and can hardly be modified on short notice. The resulting deterioration of the terms of trade was dramatic for some countries.

5. The experience in Algeria

Import controls and foreign exchange rationing procedures are a major source of inefficiency in Algeria, and they even cause production losses. Controls operate at two levels. First, the "Global Import Authorizations" (GIAs) which take the form of annual allocations of currency for each firm and second, the level of individual contracts.

GIAs cause several problems for the management of the firms.

a) Projections must be made six months before the beginning of the fiscal year and, since unpredictable changes are frequent, generally no longer coincide with actual needs

b) GIAs are distributed late, often around the month of May of the fiscal year. Before that, the system functions with provisional advances based on certain proportions of the past year's GIA.

c) The GIAs of one year must be liquidated before March (sometimes May) of the following year; if not, they are canceled Thus all merchandise must have been got out of customs before that date; since the procedures of going through customs often take six months or more, all orders must be delivered before October. A lot of firms are thus forced to obtain their annual supplies between May and October, which introduces a costly discontinuity into a process that ought to be continuous.

Problems however do not end with the GIAs. Every import contract must be placed before a commission: at the level of the firm itself for small amounts, but at the national level for large contracts. For these contracts, there is also a procedure of conformity control on the part of the bank which is responsible for the payment of the contracted amount.

A further source of delays results from the obligation sometimes imposed on importers to cover their purchases with barter or counter-trade operations, which do not involve foreign exchange.

Fortunately, a mechanism was created several years ago through which emergency imports can be carried out without formalities, as long as they are covered in the GIA. In that case, the firms have the obligation to regularize the operation later. The firms which know of this mechanism make a very beneficial use of it.

After 1986, the difficulties in the balance of payments have led to yet an additional restriction, called "flow of finance": a firm which obtains a GIA only receives part of it in foreign exchange, and it must arrange for an external credit to finance the rest of its authorized imports.

The question of inefficiency

In the course of the discussion a speaker identifies three major causes of inefficiency:

- the technological problem: even if the production tool is adequately mastered, the ability to innovate is still lacking;

- the control over the international circuits of distribution. Too many African countries leave the profit margins to foreign importers. International firms, on the contrary, earn a large rent because of their control over commercial and financial circuits.

- the management techniques are very often embryonic.

Another speaker insists on the aspect of social organization. Thus, if a country has decided that for the future of democracy, it is important that assemblies of the workers be held in the firms, one must accept the decrease in productivity corresponding to the time allotted to them.

It is also emphasized that lower productivity must not be interpreted as a cause of inefficiency: in Europe, high productivity is counterbalanced by equally high wages. The appropriate measure of efficiency is the labour cost per unit of output, which takes both aspects into account.

One consultant suggests that the remedies applied should be different when the inefficiency arises inside the firm, or when it is transmitted by other firms: in the first case, the team of managers must be strengthened; in the second case, the problem must be dealt with along the lines of the negotiation of transfer prices.

The problems of exports

A speaker points to three handicaps faced by PIEs in Tunisia, but which exist in other countries as well:

- the Public Market Commissions, already discussed in connection with imports, introduce here also delays in decision-making and rigidities in the adjustments to customer demands.

- PIEs must in principle use the transportation services of other domestic public firms. These firms are not always in a position to offer quick service or to meet the deadlines.

- inadequate financial services make it generally very difficult to arrange for export credits, and impossible to hedge exchange rate risks.

Elsewhere, it is also stressed, national regulations do not allow for the organization of offices abroad, or for the use of the services offered by commercial intermediaries.

The benefits which could be derived from the development of relations between developing countries become obvious in the face of the difficulties of the PIEs to penetrate the markets in industrial countries.

Three types of cooperation are suggested: at the technical level, at the level of preferential tariffs, and at the economic level. This last form could apply to import substitution programmes, which would be unrealistic for isolated domestic markets but become justified at the level of regional or sub- regional markets.

Commercial relations, even of the simplest kind, are however difficult to arrange. It is not easy to obtain information on supplies available in African countries, and the lack of commercial and banking links between them prevents direct relations. Most of the time, a European intermediary must be sought out. In addition, PIEs are used to calling for open tenders even when such an action is not compulsory; this limits the possibilities of buying in Africa, where prices are generally higher, be it only because of overvalued exchange rates.

A discussion then arises concerning counter-trade. It plays a significant role in the exchanges with countries where trade is carried out by the State. It can also be important in situations where the exchange rates are unrealistic or where restrictions prevent reciprocal imports of non priority goods.

Those who are in favour of this technique give examples of cases where it permitted profitable exchanges, or helped get out of difficult situations. For this to be possible however, the discussion must take place between equal partners, since the terms of trade must be negotiated directly to circumvent prices expressed in overvalued currencies.

In this connection, the representative of the International Centre for Public Firms points out that his organization has created a Centre called "ASTRO," which centralizes all available information on counter-trade or clearing techniques, and on the mode of establishing relative prices. In many cases, unfortunately, many Governments prevent PIEs from participating in this organization.

Others speakers on the contrary insist on the drawbacks of these procedures. In the first place, the merchandise obtained in compensation often does not correspond exactly to the firm's needs. Second, PIEs generally lack experience with these operations and carry them out poorly. Third, the bartered products are sometimes sold again on the international market in competition with normal exports, while the imports obtained have cost more than they would have, had they been acquired through conventional commercial channels (here also, examples are given).

Conclusion

To sum up, a UNIDO consultant offers a few suggestions in the field of international trade:

- PIEs should ensure that they import in the most economical way, by gathering information about the most competitive suppliers and by getting organized to make group purchases.

- PIEs should be careful to save on imported equipment and products. The inefficiencies that drew so much discussion also include waste in that field.

- PIEs should play a role in the promotion of exports. They are more sensitive than private firms to national priorities, and also to the value implicitly attributed by the State to obtaining foreign exchange.

- PIEs should also play a major role in import substitution policy. Here, a centralized organization, such as exists in Zambia, would be particularly well placed to carry out global studies and to develop the most promising projects.

Chapter IV

Financial Management of the PIEs

Chairman of the Session: *Mr SCYLLA* *(Senegal)*
Rapporteur: *Mr FERNANDEZ* *(UNIDO)*

Introductory statement

The rapporteur raises five questions for discussion:

- the financial viability of the PIEs;
- the means to attain viability;
- the methods used to measure it;
- the use made of accounting data;
- the validity of financial results as indicators.

a) The choice of a firm rather than an administration for the execution of a task or the supply of a service implies in itself that the sale of the good or service should cover the costs. Indeed, most public firms were created after a project evaluation had asserted their viability. Viability is thus expected when a public firm is created.

The losses of PIEs, as well as the subsidies that cover them carry a social cost: who pays the taxes that finance them, and is this transfer justified? Today another question must be added: can the budget still carry the burden of the public firms' continual losses?

The cases where an individual country was declared bankrupt have become frequent over the last years. Every time, the losses of the public firms were a major factor: it is sometimes preferable to let those firms which cannot be saved go bankrupt, just like private firms. Governments and planners, by the way, attribute increasing importance to the financial viability of the PIEs.

b) If PIEs are to be profitable (along with their other objectives), their sales prices must exceed their costs. The whole effort must go into the reduction of costs rather than the increase of prices: this serves the interests of the consumers, but also those of the nation, in the fight against inflation and the saving of resources.

c) For a private firm, the measure of profitability is clear: it is given by the return, after taxes and after the deduction of interest payments on borrowed funds, computed on the basis of the net value of social assets, that is, the venture capital of the owners.

Such a formula is difficult to apply to public firms, for whom the definition of capital is often ambiguous. Must the contributions of the State be seen as venture capital, as a grant or an endowment, or as a loan? This is not always clear, but would such a distinction really be useful?

Two suggestions are made: one following which the return should be assessed over the whole of utilized capital, the other following which the required rate of return should be at least equal to the opportunity cost of capital in the country.

d) It appears that in some African countries the accounting and financial data are only available with considerable delays. This is a serious problem, since there is no way to improve management as long as the directors do not have up-to-date data: the balance sheet and the profits and losses account are not the concern of the accountants alone, but of top management as well.

It is also necessary to revert to the concept of transparence suggested by the previous rapporteur: the balance sheets and the profits and losses accounts of the public firms should be public documents. As such, they should be made available to the citizens, the members of Parliament, and the research institutes.

Audit is also important, but it must change its philosophy. Rather than check the additions and the legality of operations, it should be used to evaluate financial management, for instance, productivity, inventory management, the collection of debts falling due.

e) Finally, it should be stressed that the firm's financial results are not the only test of its performance. First of all, accounting manipulations can transform a loss into a profit. Second, price policy can generate profits for inefficient firms, or losses for well-managed ones. This is true also for the private sector. For the public firms, there is in addition a dimension of public service, which introduces a criterion of contribution to national development.

Having stressed the importance of financial equilibrium, the rapporteur insists that it constitutes neither the only, nor necessarily the most significant, measure of performance.

Even though the discussion dealt mainly with the importance of financial analysis for the choice of investment projects, and for day-to-day management as well, the debate will be presented in the order in which the questions were raised.

Financial viability

Several speakers point out that in some countries such as Algeria PIEs do not have enough autonomy in management to be responsible for their own results. Their major problem is that of the relation with the control organizations. Others stress that public firms should give priority to social or development objectives over financial results.

The rapporteur makes two observations about this. First of all, autonomy in management is not in fact granted from above through a legal act, it is something that must be earned. Whatever the institutional system, it appears that the firms which attain financial equilibrium are also those with the largest freedom of action. On the contrary the firms which have to ask for additional subsidies are the ones subject to the most detailed control. Financial independence is the first prerequisite for autonomy.

The other point is that, in practice, there is no conflict between social objectives and the goal of financial balance. It is the same firms, the ones which are properly managed, which attain financial equilibrium and at the same time fulfil the development objectives.

These two observations are confirmed by other speakers (including some from Algeria). It is also pointed out that in Zaïre, firms which make profits do not even always abide by the legal guide-lines, without incurring criticism on that account.

It remains true, however, that price policies prevent some firms from reaching financial equilibrium, and thus autonomy. It is noticed that some managers do not aim at independence and prefer a situation where responsibilities are carried by others.

Measuring financial returns

While the second proposition does not lead to any debate, the third raises the two questions concerning the own capital of the public firms and the opportunity cost of capital. On the basis of this last concept, the discussion is then extended to the whole range of investment criteria for public firms.

A first issue raised concerns however the industrialization policy that has led to massive external debts for many African countries: who benefits from such a policy, and who carries the costs?

One attempt at an answer suggests that when the debts become very large (as is the case in Brazil), the debtor has a dominant position over his creditors since he can impose an interest moratorium. Smaller debtor countries, however, are in a weaker position. For them the price to pay for a debt that has not served to create profitable firms, which could carry the burden of its service, is the interruption of the development process.

It is pointed out that in Algeria, where the endowments of capital from the State to the PIEs are small or inexistant, long- term bank loans must be considered as part of capital funds. It can be inconsistent to finance through a loan on which interest must be paid projects with mainly social objectives which are normally incapable of generating a sufficient cash flow.

In most countries, however, PIEs have now received loans from international organizations. The States, which are either responsible for the service of that debt, or act as guarantors, must in turn require the PIEs to make the interest payments. This implies that profitability has been asserted beforehand.

In general, the public firms which are more commercially oriented are capable of carrying a heavier debt burden. The firms whose primary objective is development, and whose incomes are thus likely to be insufficient, should operate more with their own capital, or with zero-interest loans that can be likened to own capital. However, there is no general rule in this field, and it appears for example that behaviour differs between Japan and Europe, where the debt ratio in general does not exceed 40%.

In addition, distinctions are sometimes fuzzy: operations of capital restructuring often transform debts into owned capital.

Divergent views are also expressed on the issue of the opportunity cost of capital. Some want to measure it by the interest rate at which the country can borrow abroad (which is undoubtedly a sensible rule when domestic savings are insufficient to cover all the projects and part of the investment is thus financed through external debt). Others suggest an analysis in terms of the expected rate of return of existing projects: the opportunity cost is then given by the return on the last project to be approved (such a rule can be applied for example if the total amount of available funds is known beforehand).

Several speakers suggest that the opportunity cost of capital be assessed differently according to the type of project or the type of sector. The criterion would then be applied to the entire portfolio held by the State, and the brewing industry for example could implicitly subsidize the steel industry, the objective being a given average. Indeed, it could happen that many useful projects would not, on their own, be able to reach the required rate.

In the debate over financial criteria, a Zambian participant describes the attitude of the public holding companies: projects in which the development aspect is dominant and which are not supposed to be profitable, should be managed by the administrations or by parastatals in the strict sense but not by public firms. However, the Government sometimes decides to go ahead with an industrial project whose financial analysis shows that it will not be profitable (as is the case with the steel project), and decides to entrust INDECO with the management of that project. Still, in these cases, the situation is clear from the start and the objective is subsequently to minimize losses.

On the Algerian side, it is pointed out that at the time when resources were abundant, there was no clearly defined methodology for choosing investments. The limitation of resources now makes it necessary. It is however impossible simply to take over criteria which were developed in other contexts: what is needed is a set of specific ideas to adapt the criteria to the country's own conditions.

The evaluation criteria should correspond to the nature of the project: they will be different according to the impact of the projects on national development, or according to their externalities. Ideally, the planning procedures, the criteria for project selection, the way in which the projects are financed, and the way in which the performance of the firms is evaluated, should be consistent with one another.

The uncertainty inherent in any previsional economic analysis is also emphasized: the expected rates of return depend on the assumptions made about the future evolution of prices and costs, and are only as good as these assumptions themselves. Thus too high a value should not be placed on this type of analysis nor should it be carried too far, since refining the assumptions can be a costly exercise. One should however remain conscious of the dangers of discarding economic calculation.

Consequently, the public firms could be made to compute a synthetic rate which would include the following four elements:

- interest rates, national and international, according to the nature of financing.

- opportunity costs, computed on the basis of expected returns on alternative or complementary projects, in the firm or in the production branch.

- thresholds of technical, economic, and commercial efficiency.

- risk premia which would be variable according to the nature of the project.

Such calculations could form the basis for a dialogue between the firms and the planning authorities.

Financial management

Fairly different positions or interpretations were voiced in the course of the debate on the role and importance of financial management.

Three Algerian speakers criticized the excessive importance attached to financial management, and in particular the use of financial criteria to assess the performance of public firms. This was supported by several arguments.

Financial criteria apply to a liberal economy, with a capital market on which the interest rates are formed, and with all the corresponding institutions. In a different context, the very concepts of financial analysis lose their meaning and are no longer applicable. Typically, the management textbooks written in the USA do not deal with the problems which the managers of African firms have to face.

Analytical accounting, as a tool for analysing production costs, can be very useful once firms have reached a certain degree of maturity. This is not yet the case, however, in Africa and seeking refinements or marginal improvements is of but limited interest. The signs of inefficiency are evident enough to be observed without complex and weighty instruments. The organization of building sites is given as an example: depending on how well they are managed, identical constructions will be completed within 2 years, or within 4. The manager would waste time and money if he were to get involved in analytical accounting instead of supervising the work-site.

More generally, in the Algerian context, an institutional change in the relations between the firm and the State could have a much stronger impact on operating efficiency than any improvement which could be expected from a greater effort to reduce costs (which does not imply that this effort should not also be made).

Judging a firm's performance from its financial results assumes that they were given priority and that the firm had autonomy in management and some control over its environment. In Algeria, neither prerequisite is satisfied. To a wide extent, the firm is not responsible for its own choices, and functions with a price system which it cannot and should not use as a guide for allocating its resources.

Consequently, the results of the firm reflect both the efficiency of its internal management, and a set of decisions which were imposed from outside on its operations. The Government can force the firm to accept functions or a relative price structure which inevitably lead to losses. In its original context, the application of financial criteria to the results of the firms is no doubt acceptable, but it gives distorted or even perverse results in the African context.

This is true not only for public firms. Many private firms, built up under the shelter of excessive protection through tariffs, are making large profits that do not reflect efficient management. In fact, one of the motivations for a more liberal policy is the need get back to a more normal relationship between effort and results.

Overall, this position can be summed up in the following points:

a) General accounting is a necessary instrument of measure and must be pursued on that account. Indeed, monetary values are the only way to compare magnitudes which would otherwise be irreductible.

b) Accounting data are one input for management, but they are neither the only, nor the most significant one, since their value depends on a price system which is generally distorted. Thus they are not an appropriate guide for decisions: the financial optimum may be quite different from the optimum which is in fact the target.

c) Money is only one input among many, and not even the most important (this can be clearly seen in the case of Algeria where, as was pointed out at the previous session, currency availability does not represent any actual capacity of choice, since it does not give the freedom to purchase the most useful inputs or factors).

d) For public firms, and particularly in developing countries, financial results are not the objective of management. Any "financial imperialism" must be proscribed, since it would represent an unjustified shift from the role of a measuring standard to the function of defining the finalities, and thus also the basis for evaluation. Only in the case of private firms can profit be all at once the primary objective, the measure of the result, and the basis for evaluating performance.

Other Algerian speakers also stress that control is becoming more and more of a burden, without discharging its primary functions. Typically, it checks whether operations are legal, and within the budget but it shows no interest in medium-term planning of receipts and expenditure even though this is the only sound basis for a rational price policy. These speakers plead for a larger degree of autonomy, through which financial management of the firm would become significant and also for a relative price structure that could allow viability to become an objective.

These viewpoints led to an extended discussion, where different national experiences came to light.

Tunisia also went through a phase where public firms did not do any accounting, since their objective was to produce at any cost. Today it has become important, not so much to make profits, but to manage at best resources which have become scarce. This implies that more importance be given to financial analysis and management, which are the ideal instruments for reducing costs and increasing efficiency.

In Zambia, public firms are managed just like their private counterparts. Financial data are kept up-to-date, and are transmitted frequently and regularly to the controlling holding company (it must be remembered that one of its managers chairs the Board of Directors of each subsidiary). Such data are used as a basis for discussions and for the evaluation of management. The directors of the firms can be replaced, and their position (as well as their salary) depends on the results of their firm. However, these results are not measured in terms of profits (which depend on price policy, the allocation of foreign exchange, and other factors over which management has no control), but rather in terms of the improvement of internal performance.

In Senegal also, much importance attaches to the quality of accounting data. They are the only basis on which the Government can pursue its policy of privatization of some public firms, of reorganization of others, or of calling on the international institutions to finance them. The reorganization problems even require analytical accounting to make sure that choices are rational.

Complaints are voiced from several countries about the poor quality of the personnel available for financial management and for audit. In Zaïre, the supervisory authority accordingly considers it as one of its priorities to help PIEs organize their accounting. Tunisia and Senegal also point out shortcomings and inconsistencies concerning audit as well as accounting. In Senegal, a programme was established for the new Graduate School of Management, on the basis of a broadly-based study; and in fact, this programme gives priority to the functions of finance, accounting, and control, and to project evaluation.

The lack of consistency in the decisions of the public authorities is also deplored. In this connection, the system of planning contracts which has developed in Senegal since 1981 (and is now being adopted in Tunisia and Zaïre, among others) appears to offer an important improvement. It is a contractual policy which clarifies the relations between the State and its firms. The planning contract specifies, for several years in advance, the firm's policy, its investment projects, the financial results it must attain, as well as the commitments of the State to the firm (in terms of financial contributions, prices, perhaps also protection, etc.).

This system specifies the responsibilities and defines the criteria that will be used to evaluate management, while at the same time doing away with the bureaucratic control over operations.

Conclusion

Summing up, the financial function appears, in most countries, to be a major preoccupation, though attention is never exclusively focussed on it. Thus the director of a public firm indicated that he was spending a lot more time with his workshop supervisors and his personnel department than with his accountants, but that his work in these two fields was aimed at improving his firm's financial results.

All speakers agree that, since the price system is distorted and public firms also have other objectives, the evaluation of management cannot rest exclusively on the criterion of profitability (the rapporteur had already stressed this in his point 5).

Several of them point out, however, that the criteria for good financial management are identical for a public and a private firm, and that the effort to reduce costs, common to both, must be supported by an adequate and rapidly available set of accounts. A public firm, even if it is bound to make losses, must be able to show from its accounting data that these losses are justified, and do not result from too little attention having been paid to costs.

All the Government should do, is fix the rules of the game, inevitably in financial terms, and then leave PIEs free to act as they wish within this framework, as is already the case in Zambia, for example.

Chapter V

Management of Human Resources

Chairman of the Session: *Mr CAMARA (Senegal)*
Rapporteur: *Mr ROEPSTORFF*
(UNIDO)

Introductory statement

The rapporteur defines a few conditions for the efficient management of PIEs: (a) the quality of the top managers; (b) the procedures for selection of executives and management; (c) the political and administrative environment; (d) the motivation, participation, and commitment of the staff and work force.

a) On the first point, many countries do not yet possess enough high-level executives. In general, one of three types of persons is appointed to top management posts: executives, civil servants and politicians. Executives are usually from the firm itself, or another public firm, chosen for their competence and their experience. When such personnel is available, this kind of recruitment gives the best results.

For civil servants, it usually represents the peak of their career, with a higher salary (including fringe benefits) than their previous position. However, they show a tendency to behave in their new functions as they did in the old, and this prevents management from displaying the required initiative and speed in decision making.

Executives from the political world also lack experience with management. Yet, in a strongly bureaucratic system, they enjoy the advantage of connections at the highest levels, which makes it possible for them to cut through administrative red tape. In general however, they do not remain with the firm long enough to identify with it or to get acquainted with all its workings.

b) On the second point, this same problem of the availability of competent executives is encountered, sometimes made worse by the need for a policy of Africanization. This underlines the importance and the urgency of training policies, which will be discussed below.

c) Third, the political and administrative framework in which PIEs operate must be considered. In some countries, they are organized just like private firms: the management is supervised by a Board of Directors, which in turn has been appointed by a general assembly with full powers. While this is true in principle, the actual operation raises some questions: who appoints the members of these various bodies and what is their actual role?

All the General Assembly often does is approve the accounts and the provisional budget without any serious inquiry. The Board should play a more active role in the supervision of management, in the preparation of the budget, and in the study of the accounts, but these functions are not always exercised. In cases where some Board members were chosen for their industrial or financial competence, they are generally active and give useful advice. The civil servants who attend Board meetings display a strong tendency to consider that their main function is to inform their Minister of the problems of the firm and the decisions made by management.

The situation is fairly different in cases where there are public holdings companies as in Zambia. Here, managers of the holding company always preside over the Boards of Directors of the subsidiaries and can exercise more effective control than the central administration. Indeed, they are professionals who put all their time into this activity, and their supervision is much more in harmony with the independence necessary for management. However, political interventions can still occur in the appointment of top managers.

In Algeria, on the contrary, the system is one of socialist management of the firms, with an assembly of workers elected by all members of the personnel. It has consultative status for some decisions. The General Director is backed by a management committee including the senior executives of the firm. In this system, which exists also in part in Zaïre, no one from outside the firm is involved in management, except of course for the controlling administrations.

Thus it appears that the element common to PIEs in all countries is that the political authorities (sometimes as high up as the cabinet of the President) have control over the appointment of the managers. However, this power to nominate does not give any actual authority, unless it is extended to the power to fire or to renew the term. The problem of politization of public firms remains fairly general. All too often, appointments are not made according to competence, but to political influences.

In this connection, it should be remembered that during the previous discussion, the degree of autonomy of the managers of PIEs was seen to be more the result of their own competence and personal authority, than of legal guide-lines.

d) When dealing with the question of motivations, one should no doubt first talk about the systems of remuneration, before looking at the more complex aspects.

In countries where the private economy is small, the pay scales of the personnel and staff have a tendency to be equal to those of the administration (sometimes, however, with substantial fringe benefits for executives). In these cases there is little room for a personnel policy. Impera guide-lines fix the systems and levels of remuneration. This is the ca example in Algeria and in Nigeria, while in Zambia the conditic fixed uniformly for all public firms.

Elsewhere, personnel policy is closer to the conditions of the private sector, and displays more flexibility. Public firms can negotiate directly with the unions, though new labour contracts must be approved by the controlling organization. Labour legislation generally applies both to the public and the private sector.

Overall, it appears that the level of remuneration of executives is intermediate between that of the Administration and that of the private sector. This, by the way, has an impact on the ability of PIEs to compete with the private sector for recruiting and keeping high-quality executives, of whom there is always a shortage. Sometimes methods of profit-sharing are used, but they are not sufficient to avoid losses of skilled personnel.

However, the problems of remuneration are not necessarily the most important in the field of motivation. Effective participation, or public recognition for the quality of the services can also be important. In cases where the nature of the jobs implies the absence of promotion possibilities, the creation of a team spirit can be of particular significance.

Bureaucratic management of personnel tends to put emphasis on sanctions for insufficient performance. This is certainly necessary, but it does not in general offer as effective a motivation as a favourable work environment, an encouragement to quality, or the possibility of obtaining promotion or higher responsibilities.

One of the basic problems which has emerged from this presentation is that of the scarcity of competent human resources for the management of public firms -- a scarcity most strongly felt in the fields of technology and finance. This underlines the priority that should be given to the problems of training and of improving skills at all levels. There are several possibilities:

- technical assistance financed by multilateral institutions or by bilateral cooperation;

- technical and management schools, which exist both at the national and international levels;

- the possibility for some large PIEs to organize a system of internal training. A famous example is given by the Indian firm BHEL.

- the allocation of funds within the PIEs themselves, or in the State budget, to the financing of training programmes;

- the possibility for the more developed PIEs to use members of their staff to supply others with technical assistance. This was the case in India for the firm BHEL mentioned above, and there are also examples in Africa, notably in Zaïre.

- the sending of personnel abroad, to be trained in a similar firm, which facilitates at the same time the transfer of technology;

- finally, management contracts with a foreign partner, who supplies high-level executives until the local personnel has acquired the necessary experience.

The introductory presentation is concluded with a discussion of employment policy. One of the objectives of industrial development through the PIEs has always been job creation. In many cases, the result was that firms hired workers very much in excess of their actual needs, and that this personnel was under-qualified. This was due sometimes to the insistence of the public authorities which were concerned with the creation and the distribution of incomes, but sometimes also to the weakness of management.

Clearly overstaffing is bad for the motivation and the morale of the work force (why work if your neighbour is earning his salary without doing anything?), and it also affects the general efficiency of the firm. What arises here is a conflict of objectives: should priority be given to employment, or to the productivity increases made possible by modern equipment?

The need to reduce costs and to increase the efficiency of the firms has led most Governments to make a decision in favour of productivity. At the national level at least, the stress is now put on the reduction of overmanning. In several countries, including Algeria, measures have been taken for its elimination. It is however too early to know what effects these measures have had.

The subsequent discussion will be organized around two main themes: the questions concerning the managers and executives, and those concerning the work force. First, however, a general problem of values, which was raised by an Algerian participant, will be presented.

The priorities for PIEs

This participant questions the exclusive criterion of efficiency. The finality of a public firm is not just techno-economic, but also social; the firm should integrate fully its human dimension. Man must not be considered only as a resource, but also as a full-fledged partner. In fact, man should not be at the service of the firm, but rather the firm should serve to promote men.

This is a question of the choice of a social model, and all African countries have aimed at a participative form of development. Yet, the recent evolution seems to overlook this crucial dimension, which concerns the search for intelligent social solutions. The options that are now being chosen will probably aim to bypass participation.

This global judgement is subject to some qualifications, but it is no doubt necessary to call the attention of managers of PIEs, who are privileged actors in this situation, to the danger connected with a failure to create socially integrated firms. This could foreshadow serious challenges to the ambitions of the initial socio-political projects.

As will become apparent later on, many speakers have stressed the importance they give to effective participation in the firms, though perhaps this is seen more as a condition for harmonious, and thus efficient, operation. However, a Tunisian speaker responded directly by rejecting the dilemma of "man for the firm or the firm for man". In his opinion, there should be no such dependence. Man must be at his own service. But the firm is not a social service: the mentality of the assistant and the assisted should be cast away. The firm's objective must be economic development at the lowest possible cost, and with the best possible productivity of its production factors.

Another speaker stressed the need for political courage in planning: it might be impossible to reach both the objective of job creation and income distribution on the one hand, and the objective of increasing productivity and of competitiveness of the production structures on the other hand. Rarely is any clear position taken concerning this choice.

Organization and management of PIEs

The discussion took up the following points which will be developed in order: (a) the organization of the firms, (b) the selection of executives and managers, (c) their training, including training in personnel management, and (d) their motivation.

a) Regarding organization, various Algerian speakers gave some details. The history of the PIEs can be divided into three phases. During the first, from 1962 to 1970, which covers the period of the nationalizations and the beginnings of industrialization, the problems of human resources -- the choice of men, and rational management -- did not have any priority.

During the second phase, that of socialist management, personnel management and the remuneration of workers were inserted in a single system. Because of the rigidities of that system, the particularities of some sectors were not taken into account. However, the desire to bring an agent's functions into harmony with its profile became apparent.

The third phase, which has been running for several years, is that of restructuration: Here, the stress is put almost exclusively on the problems of rationality and of efficiency of the firms. It must be underlined that this transition has been carried out without conflicts and with the support of the workers.

Others also stress this rigidity of labour legislation, by indicating that an authorization must be requested for any interpretation of the law, or any application of it for which there is no explicit provision in the text.

Regarding internal structures, it is pointed out that in the Algerian system, only executives of the firm participate in the management committee, and that their role is purely advisory. Consequently, the General Director has all the responsibility and carries on his own the burden of the relations with the controlling authorities. The questions is: does a Board of Directors distinct from management tend to induce a better quality of decisions by alleviating tasks at present too heavily centralized at the level of the General Manager? Have the industrialized countries also had experience with Boards entirely made up of managers of the firm?

Outside Algeria, statutes are more diversified. Thus in Senegal, parastatals in the strict sense are not subject to the same rules as public firms. Among the latter, some are directed exclusively by civil servants, while the management organs of the firms with a mixed regime are structured just like those of private firms.

b) Regarding recruitment, a UNIDO consultant suggests the analogy with a football team. Each player must be selected for his qualities for the position he will be occupying. The most important thing, however, is the team spirit which should be present in all the players. In the public firms, this element is too often lacking, and there is competition between men or groups, as well as rivalry and intrigue.

The great strength of the Japanese, by the way, is precisely this ability to build coherent teams from disparate personalities. Attempts should be made to follow this example, which implies a change in attitudes and motivations. This is one reason why a "curriculum vitae" is not a reliable instrument, since it reveals qualification and experience, but not the personality and hence the ability to become part of a team.

Other participants agree that the usual methods of selection based on documents are often disappointing: personality is just as important for performance as are technical qualifications.

c) The group also focussed attention on the problems of training. It is stressed that in several countries, it is not the number of executives which is insufficient, but rather their training, which is inadequate for the functions they have to fulfil. An effort at in-service training is necessary to adapt the available executives to the needs of the firm.

This is felt particularly for executives who are called upon to take on the management of personnel. In several cases, this function is considered minor and enjoys little prestige. It does not involve complex calculations, as do the technical and financial functions, and thus would not appear to require special training or requests for specialized technical assistance. As a result, the quality of the these officers is too low in regard of the importance of the job, and this has negative consequences on the operation of the firm. Thus in Senegal, in the new system of the planning contracts, particular emphasis was put, apart from the financial and economic objectives, on the problems of the management of human resources, which are to be considered as a foremost priority.

Other speakers called for training programmes specifically addressed to personnel management but no concrete suggestion was made to this end.

A UNIDO consultant presented the analogy -- and the difference -- between man and machine. The profile of a job is defined just like the technical specifications of a machine. Yet the resemblance stops there: while the machine deteriorates with time, man should on the contrary improve with experience. The dynamics of this development are crucial.

Experience could be defined as the product of several factors: the ability to learn, the desire to learn, the opportunities to learn, and the number of years of training. But it should be carefully noted that this is a multiplicative process: if one of the factors is zero, the product is nil.

Hence useful experience cannot be measured by the number of years. It is rather the result of complex interactions between the personality and the environment.

The ability and the desire to learn (an attitude hopefully widely distributed among the participants in the workshop !) have served as a basis for an initiative taken in India (a country with continental dimensions): a club was formed, as a meeting place for some General Managers of public firms. This club has a membership limited to 150 (out of about 500 persons who exercise these functions), elected among the best. The primary objective is to encourage an exchange of experiences which could lead to the generalization of the best practices, and more ambitiously, to a new approach to the problems of public firms.

It seems that there could be room in Africa for this type of initiative (and many participants in the workshop would be excellent candidates for taking part in it). It could even be carried out without the supervision of UNIDO and function on the initiative of its first members.

d) The questions concerning motivation gave rise to the most remarks. All the speakers agreed on its importance, while emphasizing how difficult it is to give definitions and general rules in that field.

Answering a question, the representative of INDECO (Zambia) indicates that in his organization, despite the attention given to financial results, the essential motivation does not come from fear but rather from the pursuit of a common objective: the success of the firm. The results are seen as a measure of the successes already obtained, or of the efforts that remain to be made. A central element of motivation is the fixation of objectives that are perceived as attainable and realistic. The morale has considerably improved since INDECO became profitable. However, this positive picture does not apply to all the companies of the group: some have kept on making losses, often because of unrealistic price policies imposed by the Government. In these companies the morale is often low, because nothing can motivate the management once it no longer feels it has any effective control.

It is also clear that a system of pay taking account of individual effort could motivate the executives. However, this would imply the need for some flexibility so that the remunerations can be allowed to become higher than those of the civil service.

Another important point is the judicious use of manpower. An executive who considers that his responsibilities do not correspond to his abilities, or who finds his functions uninteresting, is likely to be unhappy with his position. This factor explains, much more than the differences in remuneration, why competent people move over to the private sector. One of the most difficult, but also most important tasks of the management of human resources is to avoid these problems.

The next question is whether there are management techniques to motivate the executives and train them for team-work. A UNIDO consultant provides at least a partial answer by mentioning a classic definition: a good leader is one who has the confidence of his subordinates; a great leader is one who gives his subordinates confidence in themselves.

Finally, one should emphasize the desire and the ability to innovate, to constantly question the existing system. Here the appropriate aphorism is due to G.B. Shaw: "A reasonable man who comes into the world finds a lot of things he does not like. Being reasonable, he adapts and is happy. An unreasonable man who comes into the world finds a lot of things he does not like. Being unreasonable, he spends his life fighting them and is unhappy. That is why all progress depends on the unreasonable man." This is undoubtedly one of the major qualities a leader should have.

Personnel management

The discussion covered recruitment, training, remuneration, and finally motivation and participation of the work force.

a) The debate deals mainly with the problem of excess personnel and its low level of skill. It is stressed at the beginning that if the State wishes to impose on public firms the hiring of personnel beyond their in order to solve certain social problems, this should be clearly recognized and the corresponding costs should be covered by a subsidy.

A speaker from Senegal points out that it is often difficult to resist pressures to hire more. In an African environment, solidarity is part of the basic values and the hopes which the community places in the firm are difficult to disappoint. It can be awkward to refuse a favour when the request appears legitimate inside the system of acknowledged values. The firm must hence develop a strategy through which it defines its responses to this type of pressure. To this end, it could specify and divulge its procedures for recruitment, for defining positions, for promotion, etc.

In answer to a question of the rapporteur, it is pointed out that in Algeria there are laws giving a firm the possibility to reduce its excess personnel, but the required procedures are so heavy that they are rarely used. At the beginning of industrialization, the productivity of the labour force was inevitably very low, and it has improved over time. The solution was not in general to reduce over-manning, but rather to develop secondary, and sometimes outright marginal, activities in order to absorb it.

A UNIDO consultant raises the question of African PIEs as social laboratories in which new forms and finalities of management can be elaborated. Now that the objective of job creation is being questioned, other social goals could be given priority, such as the improvement of working conditions and the development of participation. Such objectives could be pursued without endangering the economic viability of the firms.

b) Regarding the problems of training, some wonder how the State could raise the general level of skill of the work-force, while others look rather to the firm, which should develop its functions of internal training for the workers as well as for the executives.

One consultant calls attention to the German model which relies on the alternation of theoretical training and vocational training in firms. This could be seen as a realistic synthesis of the two preceding points of view, but it is clear that the firm must be remunerated for the training services it offers to students who are not members of its own staff.

c) Concerning the pay scales, the obstacle is very often a rigid framework defining the status of the personnel, thus limiting the possibilities of action of the management. In Algeria for example, the rank of a worker is determined solely by his function, which is rated on the basis of the motions he performs and the conditions in which he works. This no longer corresponds to modern concepts of organization.

However, one element of flexibility is introduced through a system of bonuses. Still, the variable components of the wage are in general small compared to its fixed part, and local traditions have frozen what was supposed to be variable. In Algeria, the only freedom of the firm is that it can define the parameters and the criteria for attributing the productivity bonuses, be they individual or collective. The collective ones are proportional to the wages.

In several countries, there are also systems of worker participation in the results, or of profit-sharing, which can offer motivation for the staff. In Algeria, this system exists also, and it reintroduces a profit motive into management. However, since most public firms are in deficit, the term "profit" is interpreted in a wider sense, to include any "surplus" generated by individual effort, such as improvements in maintenance, energy savings, etc. Contrary to the previous ones, this bonus is egalitarian.

Senegal is seeking to move further in this direction. Since the Government has decided to privatize some public firms, it gives their employees priority in the purchase of shares, and offers them facilities for doing so.

d) The motivation of the workers which, as was emphasized, is a more important productivity factor than mechanization, depends not only on the remuneration, but on a much broader set of problems.

A first point concerns information, which the firm must make sure it is transmitted in regular flows to its personnel, concerning its objectives, its problems, and its results. The employees must also be informed of the current structure of costs, the formation of incomes, and their distribution. They must be able to evaluate their position in relation to the firm, to know what they can legitimately demand and also to measure the potential consequences of these demands.

Some would even like to see worker representatives participate in the Board of Directors, be it only in an consultative capacity. Others are more reserved on this point, because they fear a lack of maturity.

Information should of course not flow only in one direction: employees must be given a chance to express their ideas. One solution is offered by the Algerian system, where there is an autonomous assembly of the workers, which can communicate freely with the management and submit its grievances to the controlling Ministry. Elsewhere, the problem is all the more important if the executives and the directors have received technical training based on the Western model, so that they are more or less cut off from the basis, whose reactions they do not always understand. This has led to many costly mistakes.

In particular, one Tunisian speaker complains about the lack of sociological studies concerning the working class. Another insists that the logic of the firm, which is based on efficiency and cost reductions, is way out of line with the values that regulate behaviour in African societies. As a result, the problem of the motivation of workers is often difficult to solve.

Finally, the question of sanctions is put on the table. In order for them to be effective, however, there should be both the possibility of firing and some amount of unemployment.

Chapter VI

Relations between the State and PIEs

Chairman of the Session: Mr KERAMANE (Algeria)
Rapporteur: Mr FERNANDEZ (UNIDO)

Introductory statement

Since the theme is that of the relations between the public firm and the State, it is necessary to define first the actors facing one other, and then to examine the relations between them.

Modern Governments are largely engaged in a process of economic development, and it is within this framework that they are creating public enterprises. But why create autonomous organizations? This decision springs from the implicit recognition that the behaviour of a firm must differ from that of the Administration: while staying in the public domain, the Government is entering the business world.

The "enterprise" dimension implies producing at a cost, selling at a price, seeking a return on investment, and accepting an accounting and financial discipline summed up in a balance sheet and a profit and loss account.

The public dimension implies not only State ownership, but also public objectives and public responsibility. It can be described in five points:

- multiple objectives;

- external control over management;

- operating rules that pay attention to the means as well as the results;

- the public character of operations, or control through public opinion (while private firms can make their mistakes in private, public firms must make theirs in public);

- a set of interrelations through which the firm becomes sensitive to its environment.

Secondly, how can the State be defined in this context? It is in fact made up of several departments, each of which has different perspectives and viewpoints. Among these numerous voices, one can distinguish the voice of the shareholder or the financier; the voice of the planner; the voice of the protectcr of the weakest categories of society; the voice of public morality, of the observance of rules, of the fight against abuses and corruption.

In this setting there are six fields where the Government can and must intervene:

- the fixation of the firm's objectives and the definition of its missions;
- the approval of important investments (since it is a shareholder as well as a planner, the State must have control over the use of funds, and it must fix the priorities);
- the approval of long-term plans of the firm;
- the instructions in matters of public security which are the concern of national sovereignty;
- public interest guide-lines, in areas such as wage and price fixation, employment, international trade, or the allocation of foreign exchange;
- finally, the evaluation of the firm's performance.

Some remarks must be added concerning the application of these rules. First, they define areas where the Government has not only the right, but also the obligation to state its position.

Second, the relations between the Government and the firm must not be based on commandment, but rather on dialogue; they should be "horizontal," rather than "vertical" or hierarchical.

Finally, a common language must be elaborated, somewhere between the vocabulary of professional management and that of bureaucracy and politics. Therefore the managers must become sensitive to the problems of planning and also to national priorities. On the other hand, bureaucracy must become familiar with the professional business language. This is required both for the supervision of the firms and for the choice of competent managers. The Boards of Directors must become aware of the public viewpoint, and the language of business must be heard in the corridors of power.

A UNIDO consultant adds three points to the list of the rapporteur for the rights and the obligations of the State: to appoint the managers of the firm; to reward or sanction them depending on the results; to supply financial resources.

And he adds a general rule: to do virtually nothing more.

Two other omissions are also pointed out: the State must organize the lines of communication between decision centres, and make sure that they are operating properly. Finally, the proposed model must be allowed to change from time to time to adapt to the dynamics of the relations.

Before presenting the debate over this approach summaries will be given of the descriptions concerning the actual functioning of these relations in Tunisia, Zambia, Senegal, and Algeria.

The case of Tunisia

Control is carried out by numerous decision centres, namely the Prime Ministry, the Ministries of Planning, of Finance, of Public Services, aside from the supervising Ministry itself. Because responsibilities are so dispersed, there is a general incapacity to define objectives and thus to measure performance. Any decision has its pros and cons and can thus be subject to criticism. For fear of these criticisms, clear choices are rarely made. The managers of the firm are also victims of this mentality. They do not in general stay longer than 2 or 3 years, which reduces their sense of responsibility. However, they can hope to last longer if they do not attract criticism, that is, if they avoid making difficult decisions.

The case of Zambia

Here the system is quite different. The general objectives of the industrial holding company are fixed by the Ministry of Industry. INDECO knows them well, and asks for confirmation of their purpose when conditions change. These objectives in fact imply an orientation of investments. Here the supervision is carried out by the President's Office through its assistant for economic affairs, who is in general chosen among the leaders in the parastatal sector.

All investment projects of the subsidiaries of INDECO, as well as the new projects of the holding company itself, are submitted to its Board of Directors. After having been approved or modified at that level, they are handed over to the Board of ZIMCO, the general holding. Recall that this Board counts as its members the most important Economic Ministers and that it is chaired by the President himself. Hence the approval of this Board is equivalent to that of the Government, and there is no need for discussion with the controlling administration. The same procedure applies to the approval of the long-term plans of the firms.

With regards to appointments, the President designates the members of the Board of ZIMCO, and the General Manager of ZIMCO appoints those of INDECO. For the subsidiaries, INDECO submits the nominations to the management (not the Board) of ZIMCO. Thus the managers are appointed without any political intervention, except for an investigation on the part of the Security services. However, it is clear that once appointed they take on a public responsibility. For the large parastatal organs (transportation, finance) though, the general managers are appointed by the President himself.

Information is transmitted to the controlling Ministry in the form of regular reports. More importantly, the General Manager of INDECO can call on an audit company to examine thoroughly a particular firm. The resulting reports are published. In Parliament, there is a permanent committee for the para-public firms. It chooses the firms it wishes to study, and points out all the anomalies it encounters. This leads to a public debate in which the Minister is backed by the General Manager of the firm that was examined, who helps him with his brief.

The evaluation of performances is mostly an internal procedure based on all the firm's documents, with a much less formal notification to the authorities. Overall, this system works well, though perhaps it gives the firms too much freedom regarding development.

The case of Senegal

A substantial effort was made to clarify the relations between the public firms and the State, through the technique of the Planning Contracts. Here, despite the asymmetries in their statuses, the State and the firm make mutual commitments: the firm, concerning its production, its financial results, its forms of management; the State, concerning its subsidies (or other financial aids, its purchases of services, its procedures of approval and the delays connected with them. Once this contract is signed, the firm is in fact free of any supervision, and is in relation only with the Committee of the Planning Contracts, which has an interministerial vocation.

Here, evaluation is based on reciprocal commitments: if the State has fulfilled its obligations, the firm must do so also, or explain any observed deviations. The responsibilities are clear, and they are inserted in a precise legal framework. However, it must be stressed that this method can in general be applied only after the firm has been restructured and its balance sheet cleaned up.

The case of Algeria

Several speakers offer complementary diagnoses, which can be summed up in the following points.

a) The rapid expansion of the functions of the State was not sufficiently thought out and prepared. As a result, the central Administration is unable to fulfil all the functions which have devolved on it. This is felt mostly for the direction and strategic management of the economy. The lack of professionalism of the Administrations leads to a finicky control over firms. For want of skill, its influence over the course of events is mostly illusory.

The lack of priorities in control is typical of this state of affairs: the same rules and attention apply to the largest strategic firms and to the smallest. An investigation carried out by ISGP has shown that the Planning Administration was overwhelmed with investment projects, and that this led to considerable delays in decisions. However, 70% of the requests concerned micro-projects; had they been treated summarily, more resources would have been made available for the important problems.

b) Civil servants behave towards the managers of firms as if they were superior, since they feel they are representatives of the supreme interests of the State. They also show suspicion, both towards the competence and the intentions of the firms. As a result, they deem it necessary to check and validate any decision the firms make, which often leads to harmful delays. At the same time, sticking too closely to the regulations can lead to inextricable situations: if a rule was not observed by accident, the result is outside the law, and it can be extremely difficult to get back inside, since an "illegal" situation was not provided for.

c) Because of these attitudes and the reactions of the managers, the relationship between the State and its firms is one of controversy rather than dialogue. Each party defends the frontier of its autonomy or of its power. In order to meet their numerous responsibilities, some administrations seek to develop a "striking force," in the form of personnel qualified in the field of specialization of the "opponent." Speakers mentioned "conflictual negotiations," or even "battle lines," followed by "public debates from rigid positions". At the same time, a "game of hide-and-seek" is played around difficult decisions: through transmissions of files and requests for further information, each party attempts to evade its responsibilities.

The accumulation of these expressions, taken from the various presentations, may give a distorted image of an undoubtedly difficult relationship. All speakers stressed the need to improve it and increase at the same time the freedom of management of the firms and also the skill of the Administration in analysing the problems and expressing strategic choices. This appears as a condition for a better operation of both the firms and the State, given their strong interdependence.

d) In Algeria, the debate around these problems has been going on for several years. In 1980 already, a text in the Plan had proclaimed the need to put an end to management through administrative fiats. Practically the same sentences reappeared in the following Plan, but without any more effect. Today however, a commission is working on the elaboration of a new set of rules and some texts should be approved before the end of 1988. Algeria is also thinking about medium-term "firm plans," following the model of Senegal, and both parties would get a chance to give their opinion about the definition of these plans.

Another point was emphasized by several participants. A quick decision is often more important than a "good" decision. A talented manager does not avoid errors, he quickly corrects those he made. In this perspective, the delays implied by the desire to put together a perfect file, as well as those attendant on preliminary authorizations, can prevent a firm from meeting the deadlines imposed by the timing of operations. The detailed supervision by the Administration uses up scarce resources, thus leading to a deterioration of the quality of management, and any cost-benefit analysis would proscribe it. As things stand, the firms pay for the delays.

Normal and conflictual relations

The discussion shows points points of convergence and of divergence in the participants' opinions. On the one hand, everyone agrees, along with the rapporteur, that what should be sought is a partnership, a less hierarchical and more "horizontal" relationship, as well as the development of a language common to the firms and the Administration. On the other hand, many consider that this can only result from a change in mentalities and that it would be useless to try and codify, and thus limit, the field of State intervention.

According to this viewpoint, there can [illegible]eral model, since the situations, institutions, and traditions are too different from one country to the other. Further, situations of conflict cannot be avoided. There will always have to be arbitrages between incompatible objectives, just as there are difficult choices in the use of scarce resources. Of course, these problems are not specific to the relations between the Administrations and the firms, but the malfunctions of the conflict-solving mechanisms are one source of friction in these relations. Some emphasize that an open confrontation is preferable, because it imposes a process of discussion and negotiation.

In the same perspective, these relations are governed less by economic rationality than by a logic of power conflict. And since the State has the last word and fixes the rules of the game, why should it accept to reduce its power? If the attitude is not one of cooperation, any codification of the relations is impossible; if the attitude is one of partnership, such a codification is unnecessary.

Beyond any codification, the area of the firm's effective power will depend on the entire institutional framework. Its autonomy is insufficient mostly in economies where State interventionism plays a very large part: if the State defines the objectives, allocates the resources, decides of the investments, and fixes the prices of inputs, outputs, and factors, what area of freedom or of choice is there left for the firm? In that case, rules limiting the controlling powers of the State would only be of a theoretical nature, and would lack realism.

The rapporteur responds to these objections by stating that there is of course no single model for this relationship, but that it would be an important task for research institutes to come up with a system of rules which would be appropriate in each country's global political and social context. However, it is not true that a system of rules is impossible: the Planning Contracts mentioned earlier are in fact an extreme formalization of such rules.

The reality of power relationships must clearly be taken into account. In fact, while he was in India, he observed six types of behaviour on the part of the Administration:

- a behaviour of "laissez-faire," where civil servants wash their hands of all matters;

- a behaviour of imperialism, à la Louis the Fourteenth: "I am the State";

- a battlefield behaviour, with strong confrontations between civil servants and managers;

- a chess player's behaviour, involving sophisticated moves to ensure the optimal position;

- a fireman's behaviour: no one moves as long as no fire is declared;

- a behaviour of post-mortem, where one waits until the patient has died before developing an interest.

All this leaves little room for the relationship of a happily married couple. Yet it is this that must be aimed at, bearing in mind that maintaining an harmonious relationship demands continuing efforts, especially since the Government itself changes with the coming to power of other parties or other orientations. The Japanese experiment of the MITI has in fact shown that it is possible to operate while seeking a consensus, and that this method can turn out to be remarkably efficient.

But if all participants think that everything can be summed up in a conflict of power, and that consequently nothing can be done to improve the relationship between the State and the PIEs, why hold this workshop?

A different perspective is offered by an Algerian speaker, who puts forward the following points.

a) In its role as a public power responsible for strategic choices, the State must give priority to the long-term macroeconomic perspective over any micro-economic interest. This is true for its attitudes towards public as well as private firms. However, this priority in the objectives does not imply that the managers should be personally subordinated to civil servants.

b) On the other hand, as the owner and authority in charge of the public firms, the State must be aware of the consequences of its decisions for the operation of these firms.

c) The relationship between the firm and the State is really a process of management: objectives have to be fixed, and means to fulfil them efficiently have to be worked out. This is a joint process, which can only be carried out inter-actively, since good management on the part of one of the parties depends on good management on the part of the other. Just as the Administration must take into account the operating conditions of the firms, the managers of the large public firms must be aware of the fact that they are also carrying out the policy of the State. (This last point was supported by other speakers, for whom it gives a reason to limit the autonomy of managers).

d) It would be hopeless to want to revert to a system where the Government acts exclusively through the major macroeconomic channels such as the exchange rates, the interest rates, or the control of prices or incomes. These global mechanisms have effects which are uncertain and not well known, and they can only be applied within narrow limits. More accurate and effective instruments are in fact available to the Government to enforce its decisions. Thus it was suggested in another discussion that public firms be used to slow down price increases in periods of rapid inflation. Why then should the Government narrow its range of possibilities?

This recognition implies that the methods of administrative control of public firms will be retained, be it only as a complement to the macroeconomic forms of regulation.

e) The right of the Government to orient the action of PIEs does not come under discussion. What needs to be discussed are the modalities through which this right is exercised. Methods of administrative regulation can in fact be kept up without damage, as long as their operation is modified so as to get rid of their negative effects. This is where the problem of fixing the rules of the game comes in. Such rules are necessary, and must be defined precisely, to avoid any malfunctions. Of course, the State is sovereign and has sole power to define these rules. But that cannot be all: the responsibility of the managers of public firms is to advise the Government in these matters, and to bring in their experience to help the Government define clearly the elements that must be retained and those that must be discarded.

Finally, one last speaker stresses the ideological nature of the attacks directed at public firms, which are getting more widespread. The whole preceding discussion showed that public firms could not alone be held responsible for inefficiencies that might exist. No justification exists for any form of exclusion. There is room enough for both private and public firms. So what sense can be made of these one-way accusations?

Chapter VII

Evaluation of Performance

Chairman of the Session: *Mr KERAMANE* *(Algeria)*
Rapporteur: *Mr FERNANDEZ* *(UNIDO)*

Introductory statement

The rapporteur points to the complexity of this question. Even though the problem has been debated for more than thirty years, there has never been a unanimous answer. However, two general points are significant. First, evaluation should not be perceived as an act of judgement, but rather as a continuous process aimed at improving management. Second, it is a comparative process: the reference can be other PIEs in developing countries, in comparable sectors and environments; or it can be the firm itself, in which case it is compared with its own past.

Each of these comparisons can be useful, but neither of them is completely valid. No two firms are identical, and each firm's environment changes with time.

What criteria should be used for evaluation? They are of necessity more complex than for a private firm, since they must take into account several objectives. The rapporteur suggests four: the financial criterion, the productivity criterion, the criterion of quality of service, and the criterion of social finality.

a) The financial criterion was discussed in connection with the financial management of the firm. All that should be recalled here is its importance for the capacity of self- financing and for the autonomy in management.

b) The productivity criterion would be identical to the first in a world where markets were perfect. In reality, they can lead to different results: if a firm enjoys unjustified protection or monopoly, it can be profitable without being productive. On the other hand if the price and cost structure imposed on a firm is not economically justified, it can make losses even though it might be well managed. Thus the productivity criterion can provide useful corrections to financial evaluation.

c) The criterion of the quality of services supplied would correspond to an evaluation of the firm by its customers: price and quality of the product, consistency and timeliness in deliveries, customer service, etc.

d) The social criterion is meant to measure the extent to which the firm responds to the orientations of society. Does it contribute to the realization of specific macroeconomic objectives? The problems envisaged here concern employment and incomes, regional distribution, training and promotion, and technological development.

One can also envisage another approach in terms of relationships, in which the firm would have to maximize the satisfaction of all the agents it deals with.

This viewpoint carries in fact wider significance. The possibilities of true autonomy in management much depend on how far the firm satisfies this criterion, since it will have a strong influence on any process of evaluation.

The discussion deals first with the similarities and differences between private and public firms; then with the criteria and the basis for evaluation; and finally with the institutions with responsibilities in that field.

Public and private enterprises

Several speakers stress the points of resemblance between the public and the private sector. Just as in the private sector, public firms should satisfy an appropriately defined profitability criterion. Just like public firms, a firm in the private sector should satisfy a criterion of social usefulness. However, in the private sector, the profit criterion is dominant, while social efficiency is only a question of legitimacy: the firm seeks the approval of public opinion and wants to avoid trouble with the authorities. For the public firm on the contrary, this social aspect is a central part of the objectives it has to fulfil, whereas financial viability should not always have priority.

In this connection, a conclusion presented by the rapporteur at another meeting is quoted: evaluation of private and public firms had shown that private firms were performing better in terms of "private" profit (as estimated from the enterprise's own point of view), while public firms were getting better results in terms of "public profits", including here effects on the rest of the economy.

Evaluation criteria

All speakers agree that an implicit or explicit evaluation is always carried out by the higher authorities, and that the conclusions of such an evaluation have an often crucial importance for the degree of autonomy enjoyed by the management of public firms. Furthermore, the financial criterion is the most obvious and easiest to apply. Hence, if there is no other specification, that criterion will automatically be used, however unfair it may be. Thus an Algerian speaker notes that in his country evaluation is a process carried out without precise criteria or known procedures, but with effects that can be very serious, not only for the autonomy of public firms but even for the general functioning of the economy.

He emphasizes that in Algeria in the 1970s, PIEs set up production facilities, trained the labour force, absorbed the new production techniques, acquired experience, and went through a learning process. From all these points of view, they should be judged positively. Yet their financial results were negative, and today the tendency is to assess them solely on this basis.

The evaluation techniques suggested by Professor Le Roy Jones and his team at Boston University are mentioned several times. These techniques are structured in the following stages:

- the starting point is the "private" financial result, as recorded in the accounting data;
- from there, a concept of public profit is elaborated, by subtracting from the costs the financial expenses paid directly or indirectly to the State, as well as the costs linked to the fulfilling of social objectives imposed by the State.
- to estimate the firm's progress, constant prices, costs, and wages are used, which makes it possible to measure real productivity gains.
- finally, the observed prices are replaced by shadow prices, defined by the effective scarcities of production factors (skilled and unskilled labour, foreign exchange, capital).

The aim of these techniques is to determine the effective social cost of services or goods supplied by a firm, as well as the progress it is making. For example, they can help measure in which cases an import substitution policy was justified.

So far there is but limited experience with the application of these techniques: they are now being used in Pakistan and tried out in Venezuela, but the results cannot be assessed yet.

Some speakers insist on the importance of such complex or multiple criteria. Thus, during a period of change in relative prices, of reduction in price controls or of weakening of external protection, gross accounting data lose their significance, while an evaluation in terms of constant prices and costs remains valid. Similarly, if the Government does not supply the firms with any capital and forces them to obtain finance through loans at high interest rates (as is the case in Algeria), the whole of the interest payments should be counted in the return on capital, as the rapporteur had earlier suggested.

Others, however, reject such methods as too complex, for the following reasons.

- Accounting manipulations leave too much room for arbitrary and subjective evaluations. Anything can be justified along these lines.

- The more complex the forms of evaluation, the more bureaucracy will want to expand so as to carry out the necessary calculations. Too much refinement can lead to counter-productive results.

- Motivation of the managers and self-appraisal by the firm are an essential aspect of the process: consequently, the criteria must be simple and easily understood by all. Those suggested by the rapporteur lead to some difficulties in that area. While financial and productive efficiency can be estimated with the help of a sufficiently developed method of accounting, the firm is incapable of estimating by itself its efficiency with respect to the quality of the services it supplies, and the social consequences of its activity (as well as its contribution to the the global development strategy).

Others on the contrary stress the importance of the quality factor in efficient management, as illustrated by the rapid spread of the "quality circles" invented by the Japanese. Firms should be concerned with the satisfaction of their customers and should keep track of their changing needs: if they don't, they may end up with products which would become unsalable if the market were liberalized.

This approach leads some participants to suggest simple criteria, such as financial results adjusted only for expenditure of a public nature imposed by the State. Some even suggest a dual set of accounts. One would deal with sales on the market and connected inputs, and would have to display a positive result; the other would cover the firm's public responsibilities. It is essential that these latter expenses be measurable, and that the managers not be able to hide their inefficiency by referring to vague and complex objectives of social benefit.

With regards to production for the market, which is often dominant in the industrial field, no difference should be made between public and private firms: the sanction of the market should apply equally to both.

Furthermore, some suggest that the criteria for evaluation should be allowed to change over time, for example as the firm gradually reaches a certain degree of maturity. In the medium term, sufficient financial results appear as a constraint to ensure the firm's autonomy. In the short term, there can be critical situations where priority must be given to an immediate recovery.

A speaker from UNIDO greatly distrusts any process of evaluation and asks what would happen if its conclusion were completely negative. In Europe during the last few years, a lot was heard about "lame ducks" in industry: most of these firms were closed down, often after much hesitation and delay. Is such a solution acceptable in Africa? On the contrary, if the decision went in favour of maintaining the firm, on what basis should financial evaluation be made?

One answer is given from Senegal. In the context of the new economic policy, some firms were suppressed because their expenditure did not provide a sufficient social yield: this was the case for several rural development companies. Furthermore, the State intends to privatize some firms by selling part of its shares in them. Prior to that, however, restructuration is necessary, and their social cost is extremely high: thousands of jobs will be lost. The Government started to finance programmes of social re-insertion by its own means, but presently it is negotiating over additional finance with the World Bank and other donors.

The responsibility for evaluation

Discussion then moves on to the institutional aspect: who should make the evaluation? The previous debate had already shown different points of view, some stressing auto-evaluation, others an outside assessment. The latter argue that the firm can evaluate itself only on the basis of its own elements, by measuring its own progress as defined earlier. The State, on the contrary, is the manager of a whole portfolio of public firms, and it will be able to make many other comparisons, with other domestic or foreign public firms as well as with private firms. However, such comparisons are dangerous: operating conditions are never identical, even within the same country and the same sector, and of course even less so when the terms of the comparison lie further apart.

Some speakers accept the traditional method according to which, in practice, the supervising Ministry carries out the evaluation. The advantage here is that the same organization fixes the firm's goals and checks whether it has achieved them. However, objectives can be diverse, and may concern several Departments. Thus financial equilibrium is mostly of interest to the Ministry of Finance. If a firm has been making substantial losses, it is that Ministry which will have to supply it with funds, or take over its debts in case of restructuration (put the meters back to zero, to use the expression of an Algerian speaker). Also, opinions can differ somewhat within the Administration itself, and it is not surprising that the strongest criticisms against public firms are voiced by the financial authorities.

Furthermore, the rapporteur as well as other speakers emphasize that in many cases, some decisions which are essential to the firm (concerning investments, prices, and the appointment of executives) were made by the controlling Administration. Consequently, evaluation cannot look only in the direction of the firm, but should rather consider the complex of the firm and its controller and the relations between them, which are all too often a factor leading to inefficiencies. Hence it would not be normal to have that Ministry appear both as judge and litigant.

Another solution exist where a firm is supervised by a Board of Directors with effective and clearly defined powers: its role is to control day-to-day management, while the Ministry is concerned only with the evaluation of strategic or long-term aspects.

Zambia's form of organization, with its chain of holding companies, has another advantage. Each controller is faced with only a small number of supervised units, which allows for better knowledge and thus better evaluation. In countries where these functions are more centralized, and where there is a large number of public firms, the contrary is true: inevitably, judgements are more superficial and hence more unfair. The risk, however, is that the system of holding companies might lead to giving too high a priority to financial results.

A representative of the ICPE indicates that in other countries, evaluation is often carried out by a Ministry specializing in this task or, as in Senegal, by a Committee working for the President's office. (These are, by the way, the forms of organization recommended by the World Bank in its structural adjustment programmes). The same bodies should also define the criteria to be used. In Latin America, supervision is carried out more often by a commission working for the Ministry of Finance. Its role is both to elaborate the criteria which fit best into the national context, and to see that they are applied.

Since evaluation must be seen primarily as an instrument for improving management, the evaluation carried out within the firm itself will in general be more significant than any form of external evaluation. However, the latter remains both important and unavoidable.

In closing the debate, the rapporteur offers some comments on the issue of internal versus external evaluation.

Clearly, it is difficult to find a set of criteria for evaluation on which everyone would agree. But this is probably not very important. What is much more significant is that, in all cases, these criteria be clearly defined in advance. Thus, going back to the Algerian example quoted earlier, criteria of production or of realization of the quantities specified in the Plan, can easily replace the objective of financial equilibrium. But this must be explicitly stated beforehand. Did the Government in fact tell the firms to fulfil the production objectives at any cost? If this has been defined in advance, it becomes the legitimate criterion for evaluation, and the firms can no longer be criticized for their financial deficits.

In this connection, it would be interesting to have a study cantered specifically around the definition of the criteria for evaluation and their application in various African countries. In this Workshop, the only method alluded to was that of the Planning contracts, where the State and the firm agree on specific quantitative targets -- and even there, it is mainly a process of financial rehabilitation.

It must be stressed again that if criteria of financial equilibrium are to be proscribed, the alternatives must be defined in advance. Otherwise, they will have no validity in the eyes of the controlling authorities.

However, external evaluation of the firms can only make a limited contribution to their efficiency objectives. This Workshop will have succeeded if all its participants leave with the conviction that to stimulate self-appraisal as an integral part of the function of management is much more important than any question about the organization of external evaluation.

Part Three

BACKGROUND MATERIAL

Chapter I

Overview

1. Introduction

Public enterprises spearheaded the policy of industrialization in most of the countries of the African continent, and on the whole expanded rapidly during the seventies.

Since then, growth has slowed down and criticisms have been arisen on all sides against the manner in which these enterprises have been managed and controlled.

In this context, the ISGP and UNIDO have judged it opportune to organize a Workshop which would compare a certain number of African experiences in this field, with the intention of finding out what conditions are required to ensure an efficient functioning of public enterprises.

In order to go beyond general considerations, it was decided to start out from concrete case studies in the following countries: Algeria, Ivory Coast, Kenya, Nigeria, Senegal, Tunisia, Zaïre and Zambia.

This chapter first presents the macro-economic setting and policies in the majority of participating countries. Topics are then covered in the order in which they were discussed in the workshop. After a description of the structure and organization of PIEs, decision-making and operations will be examined in some essential areas: choice of investments; pricing and trade, both domestic and foreign, the latter to include access to foreign exchange; accounting and financial management; human resources management. The chapter concludes with the general topics of relations between PIEs and their supervisory bodies and evaluation procedures.

2. The Economic Crisis and Adjustment Policies

During the last few years, all the African countries in question have experienced an important reduction in their resources. On the international front, one factor has been a rather general deterioration of the terms of trade. As show in Table 1, prices of most export products, significant for this group of countries, have declined substantially from 1980 to 87.

Table 1
Principal exports

Products[1]	Price index[2] (in $, 1980=100)	Share in Country's exports[3]	
Cocoa	77	Ivory Coast	30%
Coffee	72	Kenya	39%
		Ivory Coast	21%
		Zaïre	18%
Copper	67	Zambia	86%
		Zaïre	32%
Hydrocarbons	61	Nigeria	97%
		Algeria	98%
		Tunisia	22%
		Zaïre	12%
Groundnuts	69	Senegal	20%
Phosphates	70	Senegal	13%
		Tunisia	14%
Tea	74	Kenya	18%

1 Refers to transformed products when relevant: groundnut oil, super-phosphates, refined petroleum products
2 1st quarter of 1987 - Source IFS, IMF.
3 1985 or 1986 (last year available) - National sources and IFS

A second factor is the changes in financial flows: net transfers (taking into account interest payments and capital movements) have mostly become negative. The growing difficulties in entering international capital markets have increased the importance of loans from the IMF and of the structural adjustment programmes of the World Bank, with their attached conditionalities. They have also contributed to imposing austerity policies on most of the Governments: as table 2 shows, this resulted in a spectacular improvement of the current account balance in Nigeria and the Ivory Coast, and to a lesser degree, in Kenya, Senegal and Zambia.

Table 2
Balance of payments: current account[1]

	1981	1985
Algeria	85	1015
Ivory Coast	-1411	42
Kenya	-723	-138
Nigeria	-6207	1265
Senegal	-498	-270
Tunisia	-454	-587 [2]
Zaïre	-424	-218
Zambia	-742	-204

1 in millions of dollars
2 Goods and services (National Accounts)

Source: IFS.

These results, however were achieved by severely limiting imports and restricting public expenditure. The former particularly affected the manufacturing sector, it being the most dependent on imports of inputs and equipment. The slow-down in production (or in its growth rate) was in large part caused by the difficulties in obtaining supplies which most affected countries.

Furthermore, the austerity measures in public expenditure were reflected above all in investments, but also touched subsidies: public enterprises were directly affected by both.

Balance of payment difficulties simultaneously brought about, in most cases, a far reaching reorientation of economic policies towards a liberalization of the economy.

Table 3. GDP and Manufacturing Production: average annual growth rates

	GDP		Manuf. Industry
	1980-85	1970-85	1970-85
Algeria	4.9	6.3	10.6
Ivory Coast	-1.7	3.6	5.9 [1]
Kenya	3.1	5.3	8.8
Nigeria	-3.4	3.1	8.9
Senegal	3.3	2.8	4.2
Tunisia	4.1	6.4	9.7
Zaïre	1.0	0.2	-1.5
Zambia	0.1	0.5	0.4

[1] The entire industry

Sources: World Bank.

The most striking aspect concerns external policy: most countries have undertaken the promotion of non-traditional exports of industrial products: for this purpose, several countries have devalued their currencies and then floated them: Kenya and Zaïre since 1982, Zambia in 1985, and Nigeria and Tunisia in 1986. In the case of Zaïre, Zambia and Nigeria, this has led to far going changes in relative prices.

At the same time, the system of tariff protection is being reorganized so as to suppress the excessive privileges that were granted to certain producers (both private and public). The tendency towards more uniform protection rates is meant to favour industrial integration of backward linkages: the differences in rates resulted too often in a preference for imported inputs over local products; and, less frequently, the protection of semi-finished products led to high prices for them on the domestic market and made impossible the export of finished products.

The introduction of a certain equilibrium in the price system should supply enterprises with comparable incentives for selling on the foreign or domestic market.

Import quotas, and the accompanying delays and arbitrariness which are attached to a system of individual permits, should gradually disappear in the Ivory Coast, Kenya, Senegal and Tunisia. Nigeria (in 1986) has moved directly to the auctioning of the available foreign exchange. The Central Bank decides each week the amount it is willing to sell. Banks accept tenders and check that they concern normal commercial transaction. Demand is then satisfied according to the price that is proposed up to the amount available. As a consequence, there no longer exists an administrative system of allocating foreign exchange. Zambia has equally tried this method from 1985 to 86. Zaïre also has introduced a certain liberalization of foreign exchange controls.

The price system in the domestic market also has been or will liberalized: in Zambia and Zaïre, only certain basic products are still controlled. Elsewhere, steps in this direction are slower and more cautious: in Senegal and Tunisia, a precise schedule has been laid down for the dates when controls will be eliminated (or tariffs modified) according to the category of goods concerned; in Kenya, the government plans to move from a system where prices are based on production costs to one where it is based on potential import prices plus customs duties.

In order to avoid an immediate impact of the rise in the prices of imported products following a devaluation on the price system, many countries have only allowed a limited wage adjustment. In the Ivory Coast, Tunisia and Senegal, the minimum wage (SMIG) has not changed for two years. The effect of these measures on demand has combined with the results of budget restrictions, particularly the fall in public investment (which was often also followed in the private sector): in several cases, industries which were used to functioning with excess demand and where the only problem was how to produce enough (and to obtain the required, often imported, inputs) are now confronted with a new situation, namely how to sell their product. This creates completely new requirements in matters of price and quality, which become even more urgent when they turn towards export markets to offset the falling off of domestic demand. This phenomenon is specially evident in Zambia, but similar developments are occurring, although in not so extreme a manner, in several other countries.

These new tendencies in economic policies are accompanied by a very widespread calling into question of the role and the operation of public enterprises. In certain cases, the disillusionment goes even further back in time: since 1979 in Senegal, the government's official policy includes both a retreat from and a reform of these enterprises. In the Ivory Coast, reform proposals and reorganization in law were approved by the Party in 1980. In Kenya, the government also decided in 1980 to reduce its direct commitments to the manufacturing sector. In 1982, the first committees for reorganizing public enterprises were established in Tunisia, and in 1984 the government spoke for the first time of disengagement. In Algeria also the National Commission for Financial Reorganization decides which enterprises are eligible for reorganization subsidies.

At present, the policy of withdrawal is general (except in Algeria). All the other governments have a programme for the analysis of public enterprises, mainly in order to divide them into 3 groups:

- those that should be kept in the public sector after being restructured or rehabilitated in certain cases.
- those that should be transferred to the private sector, either in respect of ownership or of management;
- those that should be shut down.

In this respect the criteria do not appear to have been precisely defined up till now. In the case of Kenya, the government has made it clear that "enterprises which cannot operate profitably in an environment of moderate protection have little chance of contributing to development; indeed, they only waste the nations resources"; this supplies a criterion for closure. The reasons for public withdrawal are also specified: the limited resources of the State need to be affected first and foremost to supporting agricultural growth, the development of the infrastructure, and the maintenance of social services. An identical motivation is explicit in Zaïre, and one could probably discover its presence in the other cases. To this one can add sometimes violent criticisms against planning and the management of public industrial enterprises; as well as statements to the effect that they are less well equipped than private companies for answering the new orientation towards exports which their sector should adopt.

These policies have effectively been applied in the Ivory Coast for several years now: liquidation of certain public enterprises and sales of portions of equity in others. One should not, however, exaggerate the extent of these new orientations. *

First of all, in places where public holdings companies or industrial development banks exist, there seems to be no intention of getting rid of them; they satisfy the proposed criteria provided they balance their accounts, do not request or need new capital appropriations and impose a more rigorous management on their subsidiaries. In Tunisia as much as in Kenya, Nigeria, and Zambia, their managers plan to meet these new requirements which have been imposed on them. In these countries, the withdrawal of the State from the productive sector concerns directly managed interests rather than those held via these intermediaries.

Secondly, a privatization policy raises a large number of difficulties. The national private sector is hardly able to collect the required amount of capital for buying or restoring the most important enterprises. One can also doubt whether it can quickly assemble teams sufficiently qualified to ensure a more efficient management than in the public sector. And the selling off of national enterprises to foreigners raises other problems the moment it concerns sectors which risk affecting significantly the welfare of a nation.

Finally, the sale or partial transfer of an enterprise only has a chance of working if it offers profitable perspectives and this may require a costly process of restoration.

Public enterprises will, therefore, continue to play an important role in the industrial sector, even if examples of privatization, rare until now, become more frequent. They will, however operate in rather different circumstances than those experienced until now.

With respect to their aims, financial equilibrium (at the least) is reasserted everywhere and is now given priority over regional, social and other objectives which were considered very important in the past.

This objective has gained all the more in importance given that these enterprises will be able to rely on financial support from the State much less than in the past. Subsidies will be granted only in cases where the State imposes obligations beyond their objectives. They will also have to self-finance project extensions or arrange for domestic or foreign lines of credit to meet their needs: capital transfers from the State will be parsimoniously distributed.

One may quote here a text from the National Charter voted in Algeria in the beginning of 1986: "The time has arrived for all socialist enterprises to emphasize the rigour of management rules and to restore increasing priority to economic efficiency in terms of financial results".

PIEs will now have to convince the authorities of their viability in the new economic context. These necessary changes call into question the techniques of planning, management and control which have prevailed in the past. Consequently, it has become all the more important to study the forms of organization which will be most appropriate in permitting an efficient operation as dictated by the new norms.

The following sections review different aspects of the operation of enterprises and of the controls to which they are subjected. This description will seek to identify the malfunctions which result, and as a consequence the reforms required by the new economic policies.

3. Public Industrial Enterprises

The definition of a PIE is rather vague in countries where many enterprises are of a mixed economy type, meaning equity is divided between the public authorities and private partners in varying proportions. Moreover, in several cases, shares are held in part (or even entirely) by regional or local authorities (the states in Nigeria, the Wilayas in Algeria). In what follows we shall only consider those enterprises which are controlled by central authorities (the Federal Government in Nigeria), and essentially those in which the public sector holds at least a majority of shares. One should, however, stress the fact that this classification does not necessarily correspond to the administrative definition: thus in Tunisia the rules of supervision, which formerly applied when public participation reached 10%, since 1985 only hold from 1/3 on.

One should also keep in mind that even a minority holding brings with it a substantial amount of work for public administrations in the case of direct management: one has still to determine the positions to be taken by civil servants representing the State on the Board of Directors.

This vagueness regarding definitions explains why the limits of the public sector are not exactly specified in general. It is only in Algeria that the national accounts explicitly distinguish public and private enterprises. In this case, in 1982 the PIEs made up 78% of the value added of the industrial sector (hydrocarbons excluded), more than 85% of its wage bill, and close to 95% of its investments.

Elsewhere, the data are fragmentary. In Zambia, subsidiaries of the industrial holding company, INDECO, produced close to 37% of the value added of the manufacturing sector in 1985. In 1980, the whole of the public sector provided for 46% of the employment recorded in this sector.

Table 4
Value Added by Sector [1]

	Agric.	Manuf. Ind.	Mines	Constr. Energy	Services
Algeria	8	11	30	7	43
Ivory Coast	36	17	..	9	38
Kenya	31	13	..	7	49
Nigeria	36	9	19	4	32
Senegal	19	18	5	6	52
Tunisia	17	14	12	8	49
Zaïre	31	2.1	28.5	3.5	36
Zambia	14	22	13.5	4.5	46

[1] 1985, in percentage of GDP at factor cost.

Sources: World Bank and National Sources.

In Tunisia in 1984, a sample of 58 PIEs provided 38% of the value added of the sector, whereas all the PIEs together were responsible for 54% of investments. In the Ivory Coast in 1983, an incomplete sample attributed 27% of value added to them. In Senegal, the public sector as a whole made up almost 50% of GDP.

No global data are available elsewhere. In Nigeria there are more than 100 PIEs under the control of the Federal Government, in Kenya more than 50, in Zaïre about 15 (the most important are in the mining sector). The structure of GDP in these countries can be found in the Table 4.

Organization patterns vary considerably from one country to another. At one extreme, Algeria only has State Companies which in general are very large and highly centralized. In the past, there were 150 of them, each covering a sector and exercising de facto monopoly power. Since then many large companies have been broken up in order to simplify their management. Thus in 1985 their number was 474 (not including those, much more numerous, dependent on provinces and districts).

The Ivory Coast and Senegal have a much more varied legal regime:

- Public Industrial and Commercial Establishments that depend on the Budget and in general assume commercial and price control functions (in the English speaking countries, these roles are in general exercised through Statutory Boards established by Act of Parliament)

- a small number of State Corporations, organized as Private Limited Companies, but entirely owned by the State

- mixed economy corporations, which are much more numerous.

In the other countries also, the PIEs are generally organized according to private company law and obey its provisions concerning powers and distribution of responsibility. The main difference, however, is the existence of administrative supervision, which in Tunisia for example, as defined by law, exercised rights more extensive than those of shareholders in private limited companies.

In these countries (as in Nigeria and Zaïre), a specialized section of the Finance Ministry manages public participations (in Zaïre, during certain governments, there was a "Portfolio Minister"; this is the case in November 1986).

In Kenya and Zambia (and to a much lesser extent in Tunisia), there exists the quite different system of public holding companies. The clearest case is Zambia where almost all the PIEs are managed by a single holding company (INDECO), itself topped by a global holding company (ZIMCO) which manages the entire parastatal sector. Here the main supervisory role is exercised by a holding company.

In Kenya, the system of public holding companies is also prevalent. except. There are however several of them (among others in the agro-industrial domain). Moreover, certain PIEs are directly attached to the Finance Ministry.

In Tunisia, since 1985, the law provides for a system of public holding companies ("parent companies") which will have some supervisory power over their subsidiaries (for instance in the textile and construction materials sectors). In some cases, one simply regrouped companies that were previously independent; in others, however, subsidiaries that have become more autonomous. acquire a decentralized management.

In Zaïre, the main mining group when nationalized, "inherited" a certain number of industrial enterprises linked to its operations either by supplying input or transforming its output. Here we have a case of limited centralization of management. More recently, the group has been reorganized and topped by a holding company.

On the whole, the management of enterprises is decentralized: in Kenya, the portfolio of the principal public holding company comprises 9 different textile enterprises, and in Zambia 4 milling enterprises. In Algeria, however, the division of large PIEs has been oriented as much towards a functional separation (production, research, commercialization) as towards the creation of integrated production units.

The formal supervision of PIEs is in general twofold: that of the concerned technical Minister (who is sometimes that of agriculture in agro-industrial branches), and that of the Finance Minister. The competence of the administrative supervisory power is more or less reduced when a public holding company exists.

Beside this twofold supervision, there are often special procedures for certain specific operations, requiring the agreement of, and control by, other authorities. These concern investment decisions, imports (Central Bank, Ministry of Foreign Trade), price determination (Ministry of Commerce), problems concerning personnel (Ministry of Labour), etc. For these other kinds of controls, apart from supervision strictly speaking, the situation of PIEs is in general identical to that of private enterprises; and the same formalities or permissions are required from both.

The technique of "contracted plans" (or "contrats-programmes") was developed in the last few years, It started in Senegal where it had already been provided for in the reorganization plan of 1979. It implies, first of all, precisely diagnosing the enterprise's problems; secondly, one elaborates a reorganization plan; and finally one determines concretely the stages of the programme in the form of commitments accompanied by a calendar for realizing them: the "contracted plan" strictly speaking.

The same method is now beginning to be used in the Ivory Coast, and is stipulated for in the 1985 Tunisian legislation on public enterprises just as in Zaïre.

In the case of Senegal, the management of "contracted plans" has been entrusted to a special group, created under the Presidency. This cell works in collaboration with the legal supervising ministries, which provokes a clear displacement of the supervisory centre of gravity.

Parallel phenomena appear elsewhere: the calling into question of public enterprises concerns above all their financial losses (however questionable this criterion may be). Problems of rehabilitation also concern financial techniques as well as the decisions to ensure a stricter control over the execution of budgets. These different aspects act towards increasing the relative importance of financial supervision with respect to technical supervision. These tendencies are perceptible in the Ivory Coast, in Nigeria and elsewhere. In Algeria, supervision is in principle concentrated in the Ministries of Heavy and Light Industry, but other departments are involved in most of management's operations, which often renders authorization procedures slower than elsewhere.

We mentioned above the criticisms directed towards the PIEs in respect of management and financial results. In this context three problems should be stressed.

First of all, the objectives assigned to them either often were not exactly laid down or too numerous (or contradictory): management priorities thus remained unclear.

Thus in many cases, location was decided on the basis of social rather than economic criteria: the creation of employment in regions that offered few opportunities. In this light, over-manning becomes an acceptable norm; and the resulting financial losses as well as the excessive transport costs can be considered as a means of redistributing income. Indeed, the investment codes in most countries very often grade fiscal advantages according to the area of establishment of the enterprise.

Apart from these regional and social problems, the PIEs are also sometimes set other tasks that weigh on their expenses and reduce their turnover. One can mention as examples:

- infrastructure works that are not linked with their operations (case quoted in Nigeria and Algeria);

- supplying the domestic market at prices below operation costs (we shall return to the question of pricing policies);

- personnel formation: here externalities arise when public enterprises with limitations on their salary scales lose their qualified personnel to the private sector;

- in the agro-industrial field, it often happens that the processing enterprise is also responsible for extension services to agricultural producers;

- important enterprises must sometimes assume considerable expense for education (primary as well as technical) and for medical services: this creates a price externality only when these services are available for the entire local population rather than only for their personnel (such is the case for two enterprises studied in Zaïre; on the other hand, food purchases for personnel should rather be counted as indirect wages);

- finally, public enterprises are often led to supply certain goods free of charge to local authorities, or even to the Central Government (salaries of civil servants, free housing etc.).

Such examples can be generalized. In most case, PIEs, in addition to their normal business of producing goods and services, are entrusted with certain development functions. They may consist in introducing new technologies, in creating backward linkages through import substitution, in the further transformation of materials domestically produced, in order to increase value added in export. These functions may involve deficits, either permanent or at least extending over a lengthy learning process.

The current insistence on financial equilibrium of the PIEs and on the transparency of their accounts, clarifies the priorities for management, and ought progressively to limit these practices. The weight of past decisions will, however, continue to make itself felt. The new point of view should at least allow the remaining externalities to be covered by subsidies. This is one of the reforms ensured in Senegal by the system of "contracted plans".

The third problem concerns public enterprises where planning errors were committed right at the start: ill conceived, excessively costly, too large in relation to the potential market, technologically inappropriate (we shall revert to this topic in relation to the invest decisions). Here the managers carry the burden of mistakes not of their making, which can place out of reach the goals the Government sets them.

Such features, multiplicity of objectives, development burdens, sometimes the wrong equipment, already suggest that financial balance cannot serve as a single criterion to assess management quality. Further factors will be brought in later, notably with respect to pricing policies.

To conclude, it is clear that the method of supervision can entail severe constraints on management. Generalizations are however difficult, and the case studies suggest that some PIEs are well run, and others less so, in all the institutional systems reviewed above. The quality of the people is probably mainly responsible (as will be discussed below in connection with human resources). It still remains true that management will in general evince more initiative and motivation where its responsibilities are clearly defined, rather than being shared with a pervasive controlling system.

4. Investment Decisions

One can distinguish three cases depending on who the sponsor is:

- the State itself, often in association with a foreign group. This occurs most commonly when a new sector is entered.

- an existing public enterprise. This is the normal situation in Algeria where such enterprises exert a monopoly over a sector with the result that even new undertakings fall under their responsibility.

- a public holding company with or without a foreign partner. (Private national partners may be involved in all three cases. However, they hardly play a role in relatively important ventures).

Suggestions concerning new initiative and possible project studies can originate in various centres: the Planning Department, technical administrations, PIEs, holding companies, foreign sponsors or international organizations (UNIDO has been very active in this respect).

Feasibility studies are most often realized by the sponsor when it is equipped to do so. Next comes the consultant who determines the technical specifications of the project: size, location, inputs, manufacturing procedures, and equipment. Public authorities often impose conditions that are not directly connected with the viability of the project; foreign sponsors and engineering companies tend to connive at costly solutions (when they do not themselves suggest them).

The civil service in general does not possess the technical expertise to evaluate projects; and holding companies are rarely capable of doing so. The PIEs are generally better equipped for such activities and can often define precisely the framework and norms that ought to be imposed on the consultant. Tunisian law now requires, right from the stage of project analysis, an international public tender (just like international organizations when they intend to participate in a project). Cases have been mentioned (in Zambia) where such studies were financed by bilateral aid and the choice of consultant limited to the donor country.

The actual decision to realize a project is submitted to complicated procedures which can be divided into three levels:

- the initial decision to go ahead, that is, to involve public money;

- a number of subsidiary authorizations which condition part or whole of the project;
- decisions concerning the fiscal status of the project, which can affect its realization. (The last two levels are in general identical for public and private projects).

The initial decision normally involves various actors and, first of all, the Planning Department itself where it effectively exists. An important project emanating from a PIE should have been either included in the medium term plan or, at least, if the project was suggested too late for inclusion, conform to its orientations. However, the Planning Department does not have the same status in all the countries. Even when the plan defines the allocation of resources between sectors, Governments rarely feel themselves bound by its projects and financial envelopes. Only Algeria bestows a supervisory power on the Planning Department and each project has to be explicitly approved by it. In Tunisia, Finance and Planning are attributes of the same Ministry.

At the other end, the most important PIE in Zaïre decide their own investment programme: they inform the supervisory authorities but negotiate directly with foreign sources of finance. On account of the large amounts involved, the World Bank insists on the Planning Department's being consulted in order to guarantee the macroeconomic coherence of the programmes.

After the Planning Department, or in most cases before it chronologically, the sponsors (PIE, holding company or a foreign source) have to deal with the supervisory ministries: Industry (generally) and Finance. The technical aspects of the project as well as its financing is discussed with them.

The actual decision is taken by the Government for important projects, or at least by the competent interministerial committee. Thus, in Zaïre, an Investment Commission examines the proposed projects in the last instance and can call for a second assessment or upon external consultants . This commission, however, is by passed by the most important PIEs. In Kenya, the Parastatals Advisory Committee, on which civil servants of the highest level sit, has to be informed of all public expenditures;

it has its own secretariat which prepares its briefs. In Nigeria, the Council of Ministers alone can decide on all expenditures exceeding 5 million Naira (approximately $ 5 million).

Beside these quasi-hierarchical procedures, there are a number of others which are more lateral in nature: a project has to be negotiated with several other authorities. Thus, for example, the Ministry of Labour has to deliver permits if one wishes to hire expatriates, prices have to be approved by the Ministry of Trade and questions of infrastructure discussed with the Public Works Department. One often also needs a visa from the Ministry of Public Health. Local (and sometimes Central) Authorities have to accept the site, the purchase of land and grant building permits. The Ministry of Energy must agree to supply electricity and the Central Bank allow foreign exchange operations.

In the case of Kenya, the Government counted 30 authorizations that were required for the realization of an investment project, and delays could easily add up to 3 years, especially since administrations were far from being well co-ordinated. Although such precise counting was not effected elsewhere, the situation is probably similar. Several governments (among which Senegal and Kenya) want to simplify procedures in order not to discourage private sponsors which are submitted to the same lateral procedures as the PIEs.

Algeria is a model of cumbersome procedures. The realization of a project requires several trips between the Supervisory Authority, the Planning Department, Finance, Foreign Trade and the Algerian Development Bank. Delays are inevitably long and everything has to be foreseen. Thus if a supplier submits a tender that is valid for a limited period, and if the approval is granted too late, one has to restart the whole set of procedures for the new tender.

In several countries there is another procedure to be undertaken (both for public and private projects). It concerns the Investment Code and, consequently, the determination of the fiscal regime (or other subsidies) applicable to the project. In Tunisia a special agency, the Agency for the Promotion of Investments, exercises this responsibility. In other countries (as in the Ivory Coast), the Ministry of Industry is responsible whereas in Zaïre it is the Investment Commission.

This summary concerning investment rules needs to be qualified: decisions with regard to major projects are often taken at the highest levels of the State and the required authorizations are then reduced to pure formalities.

It must still be stressed the multiplicity of authorizations and controls described above, in no way guarantees the quality of investment projects. As indicated above, some could not readily be made viable.

In most cases, this arises from inadequate feasibility studies, either concerning the availability of raw materials, or the possibility of selling the product, or again an excessively optimistic view of production costs or market perspectives: this last case was very frequent and led to systematic over-scaling of plant and thus to a low degree of capacity utilization.

In other cases, investment costs have very largely over-run initial forecasts, in several cases on account of the unavailability on time of the infrastructure required to install and use the imported equipment. Other cases have been mentioned where this equipment was excessively costly and too complex or fragile or even inappropriate for the raw materials in the country where installed.

Such problems, naturally, arise mainly in those cases where the authorities enter sectors that are new to the country and where there is no previous experience or command of the technology: it is essentially then that public authorities are at the mercy of studies which can be systematically oriented towards justifying a project or a choice of equipment to realize it.

Planning errors of this sort have weighed heavily in certain countries and leave a trail of problems that are difficult to resolve in enterprises whose even partial rehabilitation would require new and considerable amounts of funds, the alternative being simply to shut them down.

One should emphasize that the disappointing results of certain public enterprises are due to such errors of planning, and that an improvement of their operating conditions would contribute only slightly to the even more involved problems of their restoration.

5. Prices, Domestic Market and Foreign Trade

This section will first review domestic price formation. Next, we turn to foreign trade, covering both exports and imports, and finally to the process of foreign exchange allocation.

5.1. Prices and the Domestic Market

In terms of their market position, PIEs fall into three groups:

- those that exercise a factual or legal monopoly over the domestic market. They may be the only producer in that range of products and enjoy a very high level of tariff protection (or be sheltered by quantitative restrictions). They may also enjoy a legal monopoly if they have the exclusive right to import competing products (as is mostly the case in Algeria, much less so in Tunisia).
- those that are in the agro-industrial or mining sector, have exclusive rights on transformation, and sell on a protected domestic market as well as abroad, where they must meet the going price;
- those which operate entirely on competitive markets either because there are private enterprises in their line of product or because protection against imports is limited (which often occurs when frontiers are easily crossed).

For the first two groups of enterprises (and sometimes for the third also), prices have always been fixed by the public authorities (the Ministry of Trade and the Supervisory Ministry).

The rule that has most often been followed is to fix the selling price by adding a margin for processing or transforming to the cost of inputs; the latter being either imported or obtained on national markets at prices which are themselves also controlled.

This method has been used with varying degrees of flexibility. In some cases prices are "self-authorized", that is, enterprises introduce a dossier justifying price increases and may apply them as long as the controlling authority does not object.

In most cases, however, cost increases may not be passed through to prices without prior approval of the authorities. Such authorizations may be slow in coming. In particular, price increases have often been disallowed for certain food products which form an important part of household expenditure (flour, oil and sugar) as part of an anti-inflationary policy and the cost has been borne by the PIEs: some have had implicitly to subsidize consumption without any kind of reimbursement. Delays in approving price increases have often caused temporary losses and been followed by readjustment.

There are also cases where the authorities refuse to accept a price rise in order to put pressure on the enterprise to reduce its costs.

Thus one can find cases of enterprises that are heavily in deficit, without this being caused by bad management: the price structure imposed on them may have resulted in negative effective protection or insufficient margins to cover transformation costs. Export oriented PIEs can exhibit similar results on account of the country's currency being overvalued.

At the other end, certain PIEs have benefited from high protection levels and comfortable margins. In these cases, some PIEs can be satisfyingly profitable from a financial viewpoint, even if at international prices their value added is very low or even negative.

The technique of determining prices on the basis of cost schedules presented by the enterprises has recently been subjected to severe criticism. Thus, in Tunisia, a document of the Planning Department considers that it encourages enterprises to paid up their costs, thus increasing their margins, even if at these high prices, they operate at lower capacity; which in turn increases their unit costs. Consequently, for sectors where lack of competition does not allow for price liberalization, the Government plans to calculate costs on the basis of "normal" capacity utilization rates. In Kenya, where the same criticisms have been raised, the Government plans to use import costs as a norm, adding to it a "reasonable" margin for protection. It justifies this measure by adding that enterprises which cannot satisfy this criterion do not contribute to the development of the country.

One should add that many countries have known a regime of excess demand and, thus, of implicit rationing until 1982 or even 1985. Price controls were applied to the wholesale prices of the PIEs whereas retail prices were often closer to balancing supply and demand. This system created considerable rents for retail trade or for private enterprises operating downstream from the PIEs.

In most cases, however, the preceding discussion reflects the past. On the one hand, austerity policies (and the reduction of real wages) introduced between 1982 and 1987 have lowered effective demand. In particular, the general reduction of investments has lowered demand for construction materials. Hence many PIEs are no longer limited by their ability to obtain supplies or by their operating capacity, but by effective demand on the domestic market. (Thus, a PIE spontaneously lowered its prices by 15% in Tunisia, informing its supervisory authority of the decision). Others are now looking for export markets.

On the other hand, the price system is being changed: liberalization has been rapid, with some backsliding, in countries where foreign exchange adjustments were large (Zaïre, Zambia) and will be progressively introduced in the majority of the other cases (Ivory Coast, Senegal, Kenya, Tunisia). These trends will compel PIEs that are mainly oriented towards domestic markets to reorganize themselves: they will have to be more concerned about selling their product rather than only producing it. Consumer preferences, product quality, delivery lags and adaptation of prices to what the market can take will become their major concerns. In some cases, commercial services will have to be introduced or improved. The need for these new requirements will be further enhanced by the increasing importance bestowed on exports.

It is evident that rigid rules with regard to authorizations and bureaucratic controls as they have worked in the past are more and more out of place in a context where rapid change is a condition for success.

5.2. Foreign Trade

In this respect, the industrial strategies that were followed have tended to produce two kinds of rather different enterprises:

- those based on the transformation of domestic resources (agricultural and mining) and oriented towards export markets. They are in general an important source of foreign exchange and of revenues for the State.

- those based on imported raw materials or semi-finished products, and too often equipped only for assembling or packaging. They are oriented to the domestic market.

Only Tunisia has a third category of enterprise (but mainly in the private sector): those that can import duty and tax free on condition that their production is entirely exported. This system of export processing zones creates employment and income, but remains unconnected with the industrial fabric of the country. In order to promote industrial exports, this regime was recently extended to cover firms which realize a significant share of their turnover on export markets

PIEs that are oriented towards exports specialize, on the whole, in products that have undergone only a first transformation: refined metals, fertilizers, vegetable oils, cement, sugar, etc. Only in Tunisia and Kenya do PIEs export finished products (textiles and clothing, for example). Among those that have been cited, rare are the enterprise that maintain a sales service abroad (tea and coffee for Kenya, and metals for Zaïre). Commercial functions in export markets are mostly managed by a private partner or just left to foreign importers who buy locally.

Sales services abroad are expensive, less easy to control and open to various abuses. The controls exerted in most countries are not compatible with flexible decision making nor with sales linked expenditures whose justification before an administration is not clear.

Even the small amount of foreign exchange needed for business trips abroad requires administrative authorization from the supervisory powers or the Central Bank, provoking delays. In Algeria, the permission must come from the President's Office..

The majority of the PIEs were however organized in the context of import substitution plans, with occasional exports when capacity temporarily exceeded the needs of the domestic market.

The import substitution policy were generally not conceived in an integrated context, except in Algeria and Tunisia. The new enterprises needed protection and an effective protection depends on the difference between tariffs on inputs and on output. In certain cases, quantitative restrictions are imposed on the import of competing products, whereas in others imports of equipment and of raw materials or intermediate go untaxed. Many countries combine these two measures.

Tariff policy has very often led to imported inputs being less expensive and easier to procure than those domestic ally produced while giving a better guarantee of quality. Therefore existing enterprises object to the creation of enterprises which could provide such inputs.

This tendency has been reinforced in many cases by the maintenance of over-valued exchange rates, thus diminishing the relative price of imports and making the domestic market more profitable than exports. (In Tunisia, for example, in order to encourage foreign investment in the export processing zones, enterprises established there were allowed to sell 20% of their production on the domestic market).

The priority granted to import substitution industries for the last 20 years, and often in inappropriate ways, has led to structural weaknesses:

- the traditional export sectors have lost ground, especially in agro-industry, either through a lack of agricultural inputs (on account of pricing policies) or because of lack of competitivity. The two most striking examples are those of Zaïre and Nigeria; and the significant exception is the Ivory Coast.

- the rapid development of an industry that depends essentially on imports. These enterprises were often over-protected and could easily sell on the domestic market the entire production that their foreign exchange allowance permitted. They, therefore, had no incentive to export.

These structures cannot be corrected rapidly. When balance of payments problems (often since 1982) led to the imposition of import restrictions, these industries (public as well as private) were affected and could not find local substitutes for their inputs. This provoked a fall in industrial production (Kenya, Zambia, Ivory Coast, Nigeria. In Zaïre, the problem dates from earlier and in Senegal, it depends on climatic variations.)

In order to ensure their supply of spare parts, some large public enterprises have created their own maintenance and production workshops (foundries and machining). In Tunisia, one of these became independent and has recently been reorganized with an extension of capacity. Elsewhere, these workshops, which can be important in size (Zaïre, Zambia), have remained part of the PIE that organized them. It seems that the PIEs have in general preferred to keep them under their control rather than to have them become independent sub-contractors.

The Governments are by no aware of these structural problems. In Nigeria and Tunisia, for example, backward linked integration of transformation industries is now a fundamental priority. In other countries, a revision of the price system and of tariff protection is reducing the preference for buying abroad and selling at home. In several cases (Nigeria, Zambia, Zaïre, Tunisia, Kenya), currency devaluation should shift incentives in the same direction.

All countries covered in this study experience to some extent a shortage of foreign exchange. It is least in the French Franc Area, where restriction apply only to imports involving the purchase of other currencies.

Zambia and Nigeria went over to a weekly auctioning of foreign exchange: this enables firms promptly to meet urgent requirements (a bid carrying a rate slightly above the market rate will automatically be accepted). Excess demand will however continuously drive up the rate (lowering the value of the domestic currency), import prices go up, and the cost of living with them. Because of this, the Government of Zambia went back to a fixed rate and administrative rationing of foreign exchange.

Elsewhere, formalities focus mainly on import licences. Once this is obtained (and verified), the Central Bank supplies the corresponding currencies. Only is Zaïre did the import licences exceed the foreign exchange available at the Central Bank, which had to refuse them, disorganizing the supply lines of PIEs.

In Tunisia the process is being progressively liberalized. In Algeria however, it remains extremely heavy. Global import plans are determined by the Council of Ministers. PIEs that introduce a request (via the supervisory authorities) to the Foreign Trade Ministry, obtain "General Import Permits" in three categories: supplies for the domestic market (for PIEs having an import monopoly), operations (inputs etc.) and equipment, for planned investments. In spite of their name, these permits are specified according to customs classifications. A transfer from one class to another requires administrative procedures; a transfer from one category to another is difficult to obtain (price and cost differentials often imply that a firm makes a profit on the goods it imports, but a loss on those it manufactures). The permits are valid for a calendar year but often arrive late, and can provoke important breaks in supplies. Fortunately, the system has become less rigid for urgent cases since 1983 through a special procedure which allows one to avoid the above controls

Owing to uncertainty regarding the delays for obtaining authorizations there is a tendency to accumulate stocks. PIEs which can do so, operate with excessive stocks which inevitably affects their financial load. The delays are more harmful when some heavy equipment breaks down; a production line can be halted for days, even weeks, while waiting for import permits and payment authorizations to go through the regular channels.

The preceding discussion applies to the entire industrial sector whether the enterprise be public, private or mixed. With regard to PIEs in particular, those who generate a substantial foreign exchange income have a privileged status: the ability to retain part of their income in foreign exchange (Zaïre and Zambia; this status is now general in Tunisia), or being exempted from formalities for their investments (Nigeria).

6. Financial Management

Problems have arisen both in relation to accounting and financial practices. We shall begin by listing the documents that have to be submitted to the supervisory authorities; then we shall discuss actual practice.

One requires of the PIEs:

- an operating budget before the accounting year begins, and in most cases an investment budget accompanied by a financing plan. This is one of the tasks of the Board of Directors, where it exists. It is, therefore, responsible for management forecasts;

- quarterly statements of position which must also be submitted to the Board and sent to the supervisory authorities either directly or through their representatives on the Board;

- annual reports and balance sheets, duly approved by the Board. This must be prepared in accordance with national accounting rules (the "plan comptable").

Over and above this minimum, the requirements are variable. In some countries, one also must submit

- monthly indicators (production, sales, turnover, stocks, liquidity situation) (required by the holding companies in Zambia);

- treasury accounts on a monthly basis (Tunisia);

- the extent to which reorganization measures have been executed and the commitments of enterprises in the context of "contrats programmes" (Senegal).

This covers the accounting requirements. There are also special procedures in certain cases (and, therefore, dossiers needed to justify them) for expenditures (current purchases or investment expenditures) exceeding certain amounts. In Tunisia, every commitment above 100 000 dinars (about $120 000) must be approved by the supervisory authorities; above 1 million dinars it has to go through an interministerial commission attached to the Prime Minister's office. In Algeria, every foreign commitment above 500 000 dinars (slightly more than $100 000) must be approved by a commission where the supervisory authorities, the Ministry of Foreign Trade, the Central Bank etc. are represented. The large contracts (more than $20 million) pass before a National Tender Commission. In Nigeria, even more is required: every commitment exceeding 5 million nairas (about the same amount in dollars until October 1986), had to be approved by the Council of Ministers. This ruling concerned both public administrations and public enterprises. Since the amounts involved totaled up to almost 10 000 million nairas (more than 4 thousand million for the investment budget of the Federal Government alone), one would expect either an unbelievable load of work for the upper echelons of the State or the ineffectiveness of this method of control whose most important practical effect would be to increase in the delays involved. In some cases one must add supplementary procedures in order to release the funds.

There also are a large number of ex post controls over expenditures: an external audit, most often entrusted to a private accounting firm (Ivory Coast, Kenya, Nigeria, Zambia). In Tunisia, this obligation exists in parallel with the function of a Financial Controller (who is a civil servant from the Ministry of Finance). The final control is exercised by the "Cour des Comptes".

In Kenya and Zambia, the rules concerning the presentation of data are strictly observed (also with regard to time delays), and the quality of the documents is good. (In Kenya there is also a special body that supervises the observance of the rules: the Inspectorate of Statutory Boards). In Zambia, the public holding company is responsible for this task. The Financial Division directly receives the budgets of its subsidiaries (even before approval by the Board of Directors), analyses them, and sends them back if the forecasts seem unrealistic or reveal a lack of effort from management. Only after approval by the Financial Division and its eventual amendment, does the budget reach the Board of Directors.

In similar fashion, the monthly indicators are addressed to the manager of the public holding company who presides over the Board of Directors, and to the Financial Division. Since the forecasts were seriously prepared, every cumulative deviation of actual realizations from it requires an explanation and rapid corrective measures. This system of control appears to be relatively efficient and quick enough to allow the needed corrections to operate in time. Moreover, it imposes on the subsidiaries, up-to-date accounting, an essential instrument for management. The Chief Accountants of the PIEs are directly appointed by the holding company.

The situation in the remaining countries is much less satisfactory. In many cases, the budgets of the enterprises totally lack realism, which renders their comparison with actual results useless. They are rarely seriously analysed but are simply filed away.

The documents covering the enterprises accounts are often presented with considerable delay, too late in any case to be of use for decision purposes either to management itself or the supervisory powers. The quality of the data is often doubtful: even in Tunisia one finds inconsistencies in the data supplied by them.

The situation is improving: in the Ivory Coast there is an efficient financial supervision of large public enterprises; in Senegal, this is true for those enterprises that have accepted the obligations of a reorganization plan; in Tunisia, after the new legislation introduced in 1985, even if it is far from being fully applied.

Nevertheless, an effective cost accounting is rarely available on time for the PIEs and their management to be able to control the evolution of the enterprise and react on time to weak points.

Administrative tradition also plays an important negative role here: it is mainly concerned with checking the correctness of entries in the context of a given budget. The notion of production costs is unknown. The multiplication of controls only serves to turn away a rare resource from its effective use as an instrument of management.

Financial management constitutes another problem area.

In many cases, one is confronted with initial mistakes: insufficiency of equity capital and loans for durations that are too short relative to the depreciation period. The lack of working capital also imposes financial burdens. This sometimes results from deliberate policy. Thus in Algeria, rather than supply them with equity capital, the Government gives them borrowing rights with the national Development Bank.

Delays in the completion of projects and the frequent problems encountered when starting up new equipment do not arrange matters. And domestic inflation only serves to increase the financial burden of foreign loans.

Many PIEs were forced to ask for bank credit, not only to make up for an initial lack of capital but also to pay for operation losses. When banks refused to continue providing credit on account of accumulating debts, many PIEs stopped payment of the State's dues (retained income tax, social security payments, indirect taxes, interest) or delayed paying their domestic suppliers (which sometimes were other public enterprises).

Such events were certainly not general, but frequent enough to cause a chain of liquidity problems: suppliers who were not paid stopped their own payments. In other cases, the management of public finances was responsible on account of the delay with which the State paid its suppliers. The first step in the reorganization of public enterprises begun several years ago (Algeria, Ivory Coast, Senegal, Tunisia), consisted in the canceling out of reciprocal debts, with the State assuming what was left over.

The public holding companies in Kenya and Nigeria observe that the difficulties they meet in reclaiming their due tend to paralyse their effectiveness by severely limiting their available resources. Even a well-run enterprise can encounter liquidity problems when it functions in a financially lax milieu where its debtors are used to not paying back. (Several development banks face the same problem).

These problems, naturally are not specific to public enterprises even if one hears of them most frequently in their context. Financial rigour is probably no stronger in private enterprises; however, one hesitates less to sue them in case of failure to pay, even to the point of bankruptcy. This was hardly imaginable in the case of a public enterprise until recently: they were implicitly assumed to be protected by a State guarantee, which often eased their access to credit (and on very cheap terms, indeed often below the rate of inflation).

Ease of access to credit and immunity to sanctions against firms that do not meet their financial obligations, no doubt created a temptation to PIEs. One should add two points: the lack of serious accounting practices, implying that management could not always appreciate the true position and ambiguous financial links with the State.

The latter supplies the initial equity capital, and often lends to the PIEs without specifying whether it is a loan or transfer; it also levies taxes and pays subsidies. Moreover, the exact nature of the funds transmitted is open to bargaining: a lcan can become an endowment, a debt canceled out by a subsidy. In many cases, financial capital appears to be without cost to the PIEs: this encourages neither its economic use nor a rigorous financial management.

This ambiguity is also present in public holding companies. Enterprises initially financed by the State have been transferred under their management without its being determined whether the Treasury or the holding company is to bear the financial losses.

We are evidently confronted by complex inter-relationships for which responsibility is shared. The lack of financial rigour on the part of the State combines with that of the PIEs. One of the important advantages of the "contrats-plans" is to specify reciprocal obligations. However, in generally deteriorated situations, PIEs will continue to meet with difficulties in recovering their claims on other enterprises.

This does not mean that losses create no problems for the PIEs that suffer them. Even if financial sanctions are not effective, relations with the supervisory authorities are inevitably affected. Managers often prefer raising bank loans or not paying their debts to the cumbersome and tiring procedures required to obtain a subsidy.

For a profit-making enterprise, the procedures are generally light: its requests are easily satisfied (even if delays do occur), and there is little interference in its management. PIEs that contribute significantly to the income of the State or the balance of payments are well placed with respect to the Civil Service.

On the other hand, the Managing Director of a loss-making enterprise may be asked to appear four times a week before the competent Ministry. He is the one who loses his autonomy and sense of responsibility.

7. Human Resources Management

Except in Algeria, PIEs are generally organized as commercial companies with their usual structure: an annual assembly of stockholders, a Board of Directors, and a managing director who may simultaneously be chairman of the board.

In the case of the PIEs the annual assembly, whose task is to approve the accounts, plays no real role: it is made up of delegates of the same ministries (and in the case of mixed enterprises, of the same partners) as the board of directors. In Tunisia, however, the civil servants who represent the State at the assembly can not be the same as those on the board.

The Board of Directors is generally the legally responsible body. It must in principle prepare the budgets, supervise management, make the important decisions concerning the welfare of the enterprise, and submit to the authorities the statement of accounts and balance sheets.

Its role is in fact variable, but often secondary: at best its members are competent and valued advisers of management; at worst, they are only a means - and not the most effective one - of informing the Government of problems and of management decisions. In fact, the most common situation is that the civil servants who sit on the Board have received no instructions and do not dare to take initiatives. They, therefore, confine themselves to raising questions which allow them to complete their reports to their superiors or their Minister. When serious problems arise, they have neither the technical nor the financial expertise to propose solutions. In general, the most active role is played by members who do not belong to the Administration (either representing private partners or, in purely public PIEs, those chosen on account of their competence).

The situation is different when public holding companies exist. Thus in Zambia, the directors of the holding companies are automatically Chairmen of the Board; they are professional managers whose task it is to follow developments in a certain number of subsidiaries and they keep informed regularly between board meetings; they are capable of evaluating the performance of management. Wnen grave problems occur, they refer the matter to the holding company's management, and propose the necessary reorganization, even the replacement of the managers. Interpreted in this way, the function of Chairman of the Board carries an effective power of supervision, which can in principle be more efficient than an administrative supervision. (Its quality depends naturally on the men who exercise it). In a structure of this type, administrative procedures weigh less heavily on management.

When there is a public holding company, it is responsible for appointing the Board's members (or some of them, for mixed enterprises), under the direct control of the political authority.

In other structures, however, it may happen that important PIEs operate at least temporarily without a Board of Directors (this was the case of two that were visited). This implies that in these cases, the Board (appointed by the supervisory authorities) only plays a limited role and the most important function is that of the managing director.

When there is a public holding company, it appoints the managing director in principle, but the choice must normally be ratified by the President's Office (or by the Government), and the higher authority has been known to impose its own choice.

Elsewhere, this authority proceeds directly to the appointments. Recruitment is broadly of three types: executives of the enterprise who are promoted for their competence and their experience; persons coming from other public enterprises (or the holding company) and who have proved their ability: civil servants or political personalities who are without experience of management of public enterprises but have won the authorities' confidence.

For the civil servant, it often represents a crowning of his career, and is in general accompanied by an important increase in salary as well as benefits in kind. They have a tendency, however, to bring along with them a their habit of following well-tried procedures and of covering themselves by higher authority: these are not characteristics that lead to dynamic management.

Political personalities enjoy a considerable advantage in a procedure ridden regime: they have the possibility of direct recourse to the concerned Minister, even to the President's Office itself, and thus of being able to cut through the red tape whose slowness can easily harm an efficient management. However, the turnover of this kind of managing director or chairman is often rather rapid.

The Managing Director is often assisted by a management committee. In Zaïre, it has legal status and consists of 2 Executive Directors and a trade union delegate elected by the personnel. This body is in practice often more important than the Board of Directors.

It may also happen that the authorities entrust management to a minority private partner, or even conclude a management contract with a foreign service firm which temporarily supplies all or part of the higher level executives. This occurs most often in new projects where the technical assistance contract which accompanies the purchase of equipment can provide for management functions held by expatriates until nationals have acquired the needed experience. These situations also occur when an enterprise is going through a rehabilitation or reorganization phase.

In Algeria, the PIEs are generally under the status of "Socialist Management of Enterprises"; The Management Board consists of a Managing Director, one or two delegates of the workers' assembly and of a few other members of management appointed by the supervisory authorities.

The Workers' Assembly is a group elected by all the personnel. It has no direct power but creates permanent commissions that watch over management. It receives all documents, presents its observations to the Management Board and makes an annual report to the supervisory authorities, containing its appreciations and its recommendations.

In all the countries that were visited, the PIEs were confronted with the problem of an insufficient number of competent national executives. One can always find excellent ones, but never in sufficient numbers to fill all positions. This lack is often encountered at the technical level, but even more so in finance and accounting. This is where one most often finds expatriates. They cost much more than nationals (where one succeeded in obtaining estimates, 3 to 6 times more), and it is good management to replace them once nationals have acquired sufficient experience. However, when measures have been taken to force early departures, which happened in several countries, the effect on profitability has been negative. Also, in some contracts, technical assistance ended too early.

Well managed PIEs attach much importance to the training of their executives and skilled personnel. Continuing employment in the firm is necessary to make that policy effective and it can be very important for the enterprise to be able to offer wage scales not too different from those of the private sector. This problem is present in Nigeria where public enterprises follow civil service regulations (except for the petroleum sector, an exception considered unavoidable), as well as in other countries where wage scales are midway between the civil service's and the private sector's.

Beside a certain weakness in management, PIEs have acquired almost everywhere the reputation of employing an excessive number of people lacking the required qualifications. This generalization however is not applicable to certain well run PIEs that were visited. In other cases, present management had inherited situations of this sort, and were busy rectifying them slowly in order to avoid large scale dismissals. In several countries, in fact, public enterprises were considered a means of ensuring employment, and the inflation of personnel resulted either from within the enterprise (each service measuring its importance in terms of its employment) and from outside pressures (which often extended to executives).

In Algeria, the fight against over-manning began in 1980-81. It took the form of administrative control of the enterprises' manning table: the one proposed by the Managing Director had to be approved by the supervisory authorities and the Ministry of Labour. Since 1982, it is forbidden to recruit unskilled personnel and managements are authorized to propose dismissals.

One can assume that the re-definition of priorities by most governments, requiring a more rigorous management and financial balance will gradually correct these situations.

The problem of professional qualifications will however, not disappear in certain PIEs where their shortage affects both product quality and the speed of machine wear. The technical schools (except in the rare cases where they are managed by very large PIEs) do not in general satisfy the needs, and several managers have indicated that they would prefer not to hire the students they qualify but rather organize themselves the training of the youth they hire.

PIEs are bound by labour law in the same way as private enterprises. In Zambia, the form of the employment contract and personnel statutes as well as wage scales are uniform throughout the parastatal sector, (ZIMCO conditions of employment). The same situation prevails in Algeria where the Ministry has fixed a common set of rules standardizing the emoluments for all functions on the basis of a series of criteria (where different aspects of job responsibilities count for 21%). However, productivity bonuses have been instituted (individual and by team); this has reduced absenteeism and raised interest in the net income of the enterprise. In Nigeria, the conditions that rule are those of public service. Elsewhere, there is greater diversity, and the PIEs negotiate directly with the trade unions (which, of course, has different implications in differing countries). Increases in emoluments, changes in the modes of remuneration or in the manning table are in general submitted for approval to the supervisory authorities. And, naturally, PIEs have to follow directives concerning wage policy from the Government which have in several cases in the last few years either frozen wages or limited increases.

Once again, these rules are not always observed and actual flexibility is often greater than that allowed for by the texts. This applies especially to executives, where benefits in kind can dominate money payments when the latter do not keep pace with inflation.

8. Relations of PIEs with Supervisory Authorities

In the countries covered, supervisory functions are formally organized in three different ways:

- the classical administrative controls;
- a system of public holding companies;
- the method of 'planned contracts' (Contrats-Plans). They will be discussed in order.

a) The legal basis of administrative controls is quite similar from one country to another, but the practice is widely different.

At one end of the scale, one meets weak Administrations, either overburdened with work or lacking qualified technical personnel. Here control is fairly nominal, PIEs enjoy considerable autonomy, as long as they do not create problems. The civil servants file their reports and mostly watch that they come in regularly. When a PIE faces a problem and requires Government intervention, the Administration refers the issue to the political authorities. In such cases, there is neither effective control nor effective support, and everything depends on the quality of management.

At the other extreme, one meets systems of pervasive controls, where decisions require prior approval, and all management action is closely scrutinized. Since different Government departments usually exercise control powers, decisions are slow to come (particularly in difficult cases), and responsibilities get unclear. Such systems tend to produce in managers behaviour of Civil Service rather than entrepreneurial type. The multiplication of controls and authorizations leads to priority being given to have files in order and to follow proper procedures, rather than to manage effectively.

Such controls are mostly of a legal type: one checks whether all proper authorizations have been obtained, if the money is provided for in the budget (or the job on the manning table). Accounting is used for control purposes, rather than being an instrument for analysing costs and preparing decisions;

Thus controls bear on the legality of management action, rather than on its results, on the procedure for decisions rather than on their content.

Where the Civil Service exercises such power, it often creates difficult personal relations, where the managers feel themselves permanently suspect and bullied. This can easily lead to a loss of motivation, the preference for the quiet life with the files in good order, and a distrust of initiatives always subject to criticism. Such controls can become counter-productive.

It must however be stressed that PIEs turning in a profit, and particularly those that contribute substantially to the Budget, usually enjoy a much greater degree of autonomy. One finds nearly everywhere an inverse relationship between the weight of supervision and financial results.

b) Where control is exercised by a public holding company, relations have a very different character. As between businessmen, the language is the same, management problems are familiar. The holding company is more interested in results than in procedures, and the lines of responsibility are clear between the management, the Board of Directors and the holding company. The definition of efficiency is closer to the practice of private enterprise, but less suitable where the Government imposes special development requirements.

c) The method of the 'Contrat-plan' has two essential advantages. It starts with a complete study of the firm, its objectives and difficulties. This allows for a precise definition of goals to be achieved, together with their priorities and time-table. Next, it concentrates supervision in a special Service responsible for such contracts, and responsible as well for seeing that the Government carries out its own commitments to the enterprise. Here the monetary cost of special burdens laid by the Government on the PIE is evaluated, and must be met by a subsidy.

The method however is heavy to get going, since it involves both preliminary studies and negotiations. In addition, it may prove insufficiently flexible in the case of unforeseen developments.

9. Evaluation of Performance

The simplest criterion is of course that of financial results, and it is also the one most frequently used. The constriction of resources that hits most public budgets tends to enhance its importance: Governments seek everywhere to reduce subsidies.

This criterion carries major importance anyway: under 'normal' conditions, it measures the efficiency of resource use. Further, as was stressed above, it is a major determinant of the relation between the PIE and its supervisory authority. It is also a condition for self-financing, implying autonomy in that field as well; it can also provide motivation for both management and personnel.

The conditions under which most PIEs operate, however, also make it a grossly unfair criterion. The main reasons for this have already been given:

- first, relative prices, which in many cases would not allow even the best-managed enterprises to balance their accounts, but in other cases provide them with comfortable margins, whatever their efficiency.
- the burdens which the Government lays on PIEs, in terms of location, social obligations, or more generally development policy.
- in certain regimes at least, the diffusion of responsibilities: where decisions are in fact made by the controlling authorities, it is unfair to lay the blame on management.
- finally, there are the cases where planning errors have resulted in establishments which can never be run economically.

This suggests that the financial criterion should, for many PIEs, receive a peculiar interpretation: it should not measure absolute results, but only their improvement, under constant prices and conditions. The value of the profit criterion indeed lies in its capacity to measure the effort to cut costs, or economize on resources for a given output: this basic purpose is met by the suggested definition. Also, it applies in an area where management is usually free to act.

It is however far from simple in application, nor can it pretend to measure social returns of PIEs. This latter goal would require criteria far more complex and inevitably carrying arbitrary elements.

Chapter II

ALGERIA

I. Macroeconomic Developments

Algeria is one of the few African countries to have chosen a completely planned system, aiming at rapid and integrated industrialization, with State ownership of most means of production (and notably, mineral resources), and public enterprises entrusted with developing branches of activity.

Thus in the sixties already, investment accounted for slightly over 20% of GDP. The rise in oil prices in 1973 enabled Algeria further to increase this effort. From 1974 on, oil taxes and royalties, almost entirely devoted to investment, accounted for more than half of Government revenue. Owing to this increase in financial means available to the authorities, national investment was maintained at an average share of 43% of GDP over the period of 1974-79.

Growth was thus rapid: for real GDP, at an average annual rate of 7% from 1970 to 79, and 6% from 79 to 84. It was of course even more marked in the leading sectors of industry and the building trades (nearly 10% p.a.). Agricultural production, however grew less than a domestic demand, which was fed by rapid demographic growth (3.5% p.a.) and the rise in the standard of living.

From 1980 on, the rate of accumulation declined and economic policy gave priority to reducing required food imports, to improving the performance of public enterprise and to restoring external balance.

Agricultural policy was completely revamped to increase output: producer prices were increased, compulsory deliveries to the marketing Boards were reduced, equipment was distributed to small farmers, the huge public farms were scaled down, land was distributed in the South and on the high plateaux.

With respect to foreign trade, exports were encouraged through fiscal measures, free imports of inputs to be manufactured for export, foreign exchange allowances for business trips devoted to the promotion of national products, export credits and preferential transport rates. Simultaneously, the Government authorized the opening of interest bearing accounts in convertible currencies, in order to attract the savings of Algerians residing abroad. Also, import monopolies were reorganized in order to improve their efficiency and import licences were granted to the private sector.

In order to reduce the deficit of public finance, the complementary budget of 1986 increased some tax rates, import duties in particular. Administrations and public enterprises were called upon to reduce their current expenditures.

2. Public Enterprises

2.1. Situation

Public enterprises occupy a predominant position in the economy. They number nearly 500 at the national level,and over 2000 at the regional level: together they account for 98% of value added in mining and energy, 91% in transport and communications,, 83% of hydrocarbons, 82% in basic industries, 73% in the building trades and 65% of processing industries. In toto, they represent 66% of national value added.

The same picture emerges for investment and employment. They carried out 65% of total investment since 1970, and supply 67% of industrial employment.

They are wholly State-owned, except for certain joint ventures with foreigners, where the State holds at least 50% of the equity.

Many public firms are experiencing growing financial difficulties. Cash flow deficits, and growing bank overdrafts, arise from uncollected claims, inadequate financial structure, and operating losses. These last are mostly explained by distortions in relative prices (be be discussed below) and by managerial inefficiency.

In view of these difficulties, the Government decided upon both organic and financial reorganization. To permit better management control, size was reduced either through specialization in production, marketing or engineering, or through regional splitting, with head offices moved closer to the centres of production. At the same time, control was tightened in some areas: manning tables with ceilings on staffing, ratios of indirect labour costs on turnover, input ratios. Some of these measures seen to have been too sweeping (thus splitting production from marketing has cut off firms from the feedback of its customers), and are being reconsidered.

In the financial field, the slate of irrecoverable claims has usually been wiped clean, and the need to provide firms with working capital recognized.

2.2. Organization

From 1975 on, the traditional structures were progressively replaced by the new system of Socialist Management of Enterprises. Here the standard enterprise charter defines: (i) its mission and goals, (ii) the structure of management, (iii) its capital and assets, (iv) its parent ministry and other control authorities.

Under the charter, a firm is run by a Managing Director appointed by the Government. He is advised by a Management Committee, on which sit the senior managers appointed by the parent Ministry, and two representatives elected by the Workers Assembly.

The Managing Director must consult this Committee but can override its decision. The minutes of its meetings, with the opinions expressed and the decision of the Managing Director, go to the parent Ministry.

Most firms in industry and building come under this charter, whereas in services, the organization remains closer to the former system.

The Workers Assembly is organized by the charter. At the enterprise level, its members (7 to 25 in number) are elected through a two-tier process from lower level assemblies. It has the widest terms of reference: it discusses and advises the management on enterprise plans and their execution, (including changes in the structure of activities), on accounts, on the manning table, on all matters concerning training and personnel policy. It is responsible for social and cultural policy, and decides on the distribution of the share of the profits allotted to the workers. Its annual report reviews the operations of the firm, and offers recommendations for the improvement of management and the increase in productivity. It can act as a watch dog and draw attention to waste and pilferage.

3. Investment Decisions

Projects usually arise from within PIEs, sometimes from the parent Ministry. They are subject to a three level procedure:

a) After approval by the parent Ministry, they are submitted to the Plan, as part of the development of the relevant branch of production.

b) If accepted, a technico-economic study is carried out, to obtain the "visa" of the Plan for the project. Such a visa carries the authorization to invest.

c) The file then goes to the Algerian Development Bank. A financing decision eventually emerges, defining the share of the project to be covered by self-financing and by bank credit. The Bank also controls the execution of the project, checking that the expenditure conforms to the "visa" document of the Plan. The commercial bank that carries out the operations, opens an account for each project. It must make sure that no transfer takes place between one account and another, or between investment and current expenditure accounts.

Private investments have their own authorization procedures, which can easily last a year. These projects cannot exceed 30 million dinars, and thus lead to small enterprises, and are also hedged in with various restrictions. From 1980 to 84, private investment proposals totaled 3 000 million Dinars as against 300 000 for public enterprises.

4. Prices, Domestic and Foreign Trade

4.1. Prices

The pricing system is an essential factor in the results of PIEs. A number of prices are treated as strategic or essential, implying that any modification requires a Government decree. Here the request of the enterprise first goes to a National Price Commission, which studies the submission and transmits its recommendations to an interministerial committee; this body reviews the issue and gives its conclusions to the Council of Ministers for decision. This procedure is required even if the cost increases on which the firm's case is based, result from wage or price decisions made by the Government itself. Even so, requests are often refused for political or social reasons without the firm obtaining an offsetting subsidy. The process in any case takes months, which is highly detrimental in periods of rapid cost increases.

Since 1980 however, the list of such prices has been shortened and some have slid into the next category, which covers most consumer goods. Here the decision depends on the Ministry of Commerce, which verifies the reality of cost increases and margins to give its agreement (homologation). Both the Commission and the Ministry of Commerce appear more sensitive to consumer reactions than to the needs of public enterprises.

Other prices are free in principle. Timorous managers (both private and public) tend however to request homologation for any increase in the prices they charge: this gives legitimacy and may indeed facilitate negotiations with customers.

The National Price Commission checks the imputed costs and margins and may propose a different structure. Where prices are found to be below accepted costs (these are determined on the basis of a norm based on full and efficient use of capacity), the policy of the Commission is to bring them up to the level of costs over a period of 3 or 4 years.

This method of fixing prices on a normative cost plus basis, carries severe disadvantages for firms using complex and untried technologies. Here effective cost are often far higher than the norm fixed by the administration, which entails heavy losses. It benefits on the other hand purely commercial firms, where there is little spread between normative and effective costs, and where the margins allowed are wider.

4.2. Purchases

Proposed contracts are subject to different forms of control according to their importance, such control applying to both price and specifications, and to the choice of partner.

Large contracts (100 million Dinars or more for equipment, 200 or more for inputs, 40 or more for studies) must be referred to the National Markets Commission. This body is chaired by the Minister of Commerce, and includes representatives from the Presidency, the Party, all ministries, the Algerian Development Bank and the security police.

Smaller contracts (but still in excess of 500 000 Dinars) go to mixed commissions, chaired by the Managing Director of the enterprise concerned, and including representatives from the Ministries (parent and Commerce), and from the bank which will carry out the payment.

Very small contracts are reviewed inside the firm.

The selection of the partner results from open tenders, sometimes from bilateral negotiation (for instance when only one supplier offers the desired technology). Such bilateral choices must be justified to the competent commission, and are subject to rigorous control. The firm retains however the right of defining the criteria for selection.

All clauses in the proposed contract are subject to review. The bank concerned has 30 days to advise whether the proposal conforms to the exchange regulations. Approval ("visa") by the competent commission dispenses from other authorizations.

These procedures are waived only for purchases of produce quoted on a commodity exchange, where prices are both transparent and subject to wide daily fluctuations.

4.3. Import control

A law passed in 1978 establishes a State monopoly on foreign trade, which in turn is delegated to public enterprises, each in its field of activity. It covers their outputs and their inputs.

Total import requirements are defined annually, then broken down by Ministry, which in turn allocates their quota to the firms under its control. Thus each firm receives its General Importation Authorization.

This GIA includes three categories:

- monopoly products, which cover manufactured goods. For some of them, the monopoly is strict, for others, public enterprises in other branches can also import but only for their own use, and not for resale.
- capital goods, corresponding to the planned investments.
- inputs.

No transfer from one category to another is allowed, and transfers within the same category from one custom tariff position to another requires authorizations. The current trend is to extend the system to the importation of services, with its own GIA.

After 1985, private firms carrying investments within the Plan, can also receive GIAs, as well as import licences outside the monopoly.

The GIA is the control instrument for imports. Control is operated through the banks which receive the GIAs of their designated customers. They must check for every operation that there exists sufficient credit in the GIA under each tariff position.

The validity of GIAs normally lapses after 6 months. Banks can however give them unlimited validity when they concern long-term investment projects.

5. Financial Management

Up to 1970, public enterprise investment projects were financed through budgetary grants ('concours définitifs'), but these were replaced by loans ('concours temporaires') after 1971. In addition, up to 1977, firms were not allowed the use of their retained earnings, but had apply them to the purchase Treasury bonds.

The financial consequences were of course disastrous for PIEs. Not only did they have to cover themselves the building of the necessary infrastructure and the personnel training expenditure, but their cash situation was permanently burdened with heavy interest and amortization payments. With neither fixed or working capital, they were heavily indebted to the banks, which also had to meet their unplanned losses.

This system of financing was however partly modified in 1980. Henceforth, infrastructure work and training expenditure were covered by capital grants. In 1983, the system of fiscal assessment was modified. Finally the restructuration programme wiped out part of their large indebtedness, and rescheduled another.

It must also be noted that in the 70's, the role of the banking system was to distribute the funds allotted by the Algerian Development Bank (that is, the Treasury) to public enterprises in order to finance their planned investments. The banks, with no role to play in the agreement of projects, were not interested in their potential financial returns.

Reform of public enterprises is under consideration by the Government in 1987. It should grant them greater management autonomy, and might also give banks an enhanced role in watching over the viability of public enterprises financial choices, at least for some minor investments.

6. Human Resources Management

General Directors of public enterprises are appointed by Government decree, after nomination by the parent Ministry. Their salaries depend on the importance of the firm. The remunerations of senior managers are then scaled down from that of the General Director. Their level is by and large lower than the corresponding grades in the civil service.

General Directors are usually selected from the higher grades of the civil service or the public enterprises, with backgrounds in economics or engineering. They are usually technically well qualified, but weaker on accounting and finance.

The manning table is subject to approval by the Prime Minister's office (Commission on organization and management, which also advises on restructuration). This procedure, which often involves long delays, fixes maximum staff numbers for all functions. It was instituted to curb the tendency of public enterprises to recruit without due allowance for the attendant labour costs. Public managers complain that it deprives them of one of the main instruments of personnel management.

The Government has also passed legislation and issued directives concerning the general status of the labour force, one aspect of which consists in a national grid of wages and salaries based on a standard classification method. One aim of the reform was to put an end to the competition among public enterprises for hiring skilled staff and managers, through the offer of higher salaries and fringe benefits. To quote an example, in the building trades alone, there existed about 60 different wage scales for similar qualifications.

7. Relations of PIEs with the Control Authorities

7.1. Parent Ministry

The two main functions of the parent Ministry concern orientation and control. It also organizes relations between the PIE and other administrations where these are not direct.

Orientation involves establishing the development goals of the branch and co-ordinating the action of the participants, supervising the preparation of enterprise short- and long-term plans and approving them. It also involves issuing directives, fixing technical and management norms.

Together with other ministries which might be concerned, the parent Ministry approves the firm's previsional budget, the proposed manning table, suggestions for extension or creation of subsidiaries etc. It appoints the senior management, nominates or proposes the dismissal of the Managing Director.

Control functions include the follow-up of plan execution and of the operations of the firm. An official discharge is given when the management has proved satisfactory.

Control also implies the right to call for any documents or to investigate on the spot, as well as to appoint a team of enquiry to examine the application of all State directives.

In fact, most basic management decisions must obtain prior approval by the parent Ministry, and sometimes by the Government itself, and the process is usually a long one. In addition, many Directors General seek to be systematically covered by the authorities, even when it is not required (as for small contracts).

7.2. Other Administrations

Apart from the parent Ministry, PIEs also depend on other functional departments, as well as being subject to a posteriori verifications from specialized institutions. Thus these administrations can request from PIEs any information and carry out any investigation they deem useful. They can take appropriate measures if a PIE has failed to comply with some regulation, but they must inform the parent Ministry.

A priori authorizations must be obtained from the Ministry of Finance (via the banks for exchange control); of Commerce (Global Import Authorizations, price policy, control over public purchases); of Planning (investment projects, development planning); of Labour (wages, personnel policy, labour legislation).

These Departments thus exercise effective power over a wide range of management decisions, impinging on the role of the parent Ministry. Authorizations must be sought simultaneously from different bureaucracies, each defending its prerogatives, and often unable to agree.

The paralysing consequences of this system are now being recognized, and Government directives have been issued to study the best means of simplifying procedures and alleviating the weight of administrative over-regulation. Decisions have not yet been taken, but it is expected that wider autonomy in management will be recognized as an essential prerequisite for improved economic performance.

A posteriori control creates fewer problems. It is entrusted to three main institutions: the National Popular Assembly, the Public Accounts Court and the Inspectorate of Finance.

The Assembly receives the annual report of public enterprises, as well as those from their Workers Assemblies. It can launch inquiries on any topic of general interest.

The Court checks all accounts and financial statements. According to the law, the efficiency of management is assessed with reference to the norms contained in the Plan, or by comparison with norms of national or international validity. The Court is also competent to evaluate financial restructuration requests from public enterprises.

The Inspectorate may proceed to unforeseen on the spot checks on books and documents, or it may organize formal study or assessment groups.

8. Evaluation of results

The discussion above shows that PIE financial accounts have often borne the burden of unrealistic pricing policies, as well as high capital costs. Their results have, partly as a consequence of these policies, been negative on the basis of standard accounting practice.

If however one uses a concept of social profits, including all taxes and financial flows in favour of the State, as well as the public expenditure which the enterprises have had to carry out, then their results over the last 10 years become positive. Furthermore, there now exists a large number of public enterprises where the accounting losses are of the same order of magnitude as the financial costs, which arise from the method of financing investments.

In other words, results are often negative because PIEs have been a docile instrument for the realization of the physical objectives given by the Plan (they were never given financial goals), while simultaneously norms of private accounting are being applied.

This observation does not mean there are no objective problems within public enterprises: inadequate mastery of technology, poor organization of the flow of materials leading to interruptions in production, weakness in organization, insufficient care for maintenance etc.

In conclusion, one may consider that PIEs have been effective in achieving the objectives assigned, but have done so with insufficient efficiency, when the term is used to cover the price that had to be paid to achieve them.

Chapter III

IVORY COAST

I. Macroeconomic trends and policies

The Ivory Coast experienced a fast rate of industrialization until 1980, at more than 13% a year between 1960 and 1980 (which implies an 11.5 fold increase in production over 20 years).

The economy went through an exceptional spurt of growth between 1976 and 1979 on account of very favourable coffee and cocoa prices, its two main exports. Private investment reached a record level in 1978 and industrial production increased by more than 50% between 1978 and 1980.

The end of the boom came brutally with the second oil shock and the 1981 recession. Simultaneously there occurred a decrease in production, a huge deficit in public finances and in the current account balance. Moreover, foreign debt which had built up during the euphoric years began to weigh down the balance of payments.

Austerity measures were installed in 1981 with a better control of public expenditure. Production stagnated in 1982 and 1983, with an even further drop of agro-industrial production in 1984 on account of the extremely dry weather experienced in 1983-84.

Since then, structural adjustment policies established with the concurrence of the World Bank has begun to bear fruit: production revived dramatically in 1985 (industry: +12.6%; GDP: +6%) and stayed healthy in 1986 (industry: +7%; GDP: +4%).

Macroeconomic equilibrium was re-established much faster than agreed on with the World Bank and the IMF. The Government budget which had a deficit equal to 13.2% of GDP in 1983 realized a surplus of 3.4% in 1985 (through stabilizing current nominal expenditure, lowering investments and subsidies to public enterprises and an increase in revenues faster than foreseen). At the same time, the current account balance of payments became positive (3% of GDP) and inflation was brought under control (4% p.a. from 1984 to 1986).

The return to macroeconomic equilibrium, however, was bought at a heavy price, namely, the collapse of both public and private investment. The State reduced its investment rate from 9.5% of GDP in 1980 to 2.8% in 1985; and the private sector (excluding petroleum) decreased its investments by almost 80% over the same period. (A large part of this dramatic fall corresponds, however, to the end of the construction boom in Abidjan). In 1985, fixed investment had fallen to 11% of GDP).

The new instruments of industrial policy introduced within the framework of the structural adjustment programme include a revision of tariff protection rules (aimed at eliminating anomalies in tariffs and guaranteeing an effective protection rate of 40% to all sectors, in terms of value added); the gradual replacement of quantitative restrictions by temporary increases in duties; export subsidies aimed at compensating tariffs on imported inputs and calculated to ensure subsidies of the same order on value added (partly needed to compensate for the over-valuation of the CFA franc); a new investment code (promulgated in November 1984) which does not discriminate against foreigners and defines a system of "priority approvals" with special fiscal advantages. Every public or private enterprise can request a "priority approval" for plans to create, extend or re-organize its activities.

It appears that these measures are beginning to have effect in 1986 in which there has been a perceptible revival in productive investments. The improvement in the budget will also allow a resumption of public investment. The economy, however, still appears to be basically dependent on agriculture which affects agro-industrial enterprises and textiles (more than half the value added of the manufacturing sector), as well as exports; and has multiplier effects on the rest of the economy. In 1985, the value added of this network of activities (agriculture, industry, commerce, taxes) made up 29% of GDP, whereas merchandise exports (petroleum included) amounted to 44% of GDP that year.

It should also be stressed that, with the exception of this branch, there are very few backward linkages: the remaining industries are specialized in the assembly and packaging of imported products. Tariff reforms aim precisely at lifting the protection that benefited final products to the detriment of intermediate goods and capital.

The other dimensions of economic policy, under the impulsion of the World Bank, consisted in raising prices paid to agricultural producers and in a more effective support of domestic small and medium sized enterprises.

2. The parastatal sector

The uncontrolled growth of the parastatal sector, poor management and the rapid increase in its debt, alarmed the authorities toward the end of the seventies.

At the 1980 Party Congress, a policy of withdrawal by the State from the productive sector was announced and a far-going reform initiated. It led to proposals approved by subsequent Congresses and turned into laws. Their primary concern was to fill a legal vacuum and to impose a reorganization of management; This policy was reasserted by the President in his general policy report to the Congress in October 1985: "The State is not the best industrial manager and our policy has always been to return to the private sector all operations for which it is better equipped than we are. The experience of State Companies has rather quickly led to the conclusion that they were poorly managed. Hence we have decided to accelerate their retrocession to the private sector".

For the year 1983, public enterprises (wholly or majority owned by the State) supplied at least 27% of value added in the modern sector. The share of public enterprises has probably declined since then, with the gradual implementation of the withdrawal policy.

Some cases, National Companies have been liquidated and their shares sold. In other cases, majority or minority participations have been sold when an acceptable offer was made.

The policy, however, is subjected to rather narrow limits: the Government wants to avoid a foreign takeover of capital (hence the recent refusal of a Lebanese group's proposal). Moreover, the large national enterprises that created the most problems are of a size that renders their takeover by a more modestly dimensioned private sector practically impossible.

Two of them deserve special mention: the cement factory which supplied clinker to crushing units had production costs which were three times as high as the cost of imported cement, according to the Ministry of Industry. It was closed down in April 1984.

The other case much more important and mainly responsible for the establishment of a privatization policy is the sugar complex which ran 8 plantations and mills. According to figures available from the Central Accounting Agency, its operating loss was about 24 thousand million CFA francs in 1983 (about $60 million at the time) for a production level of 180 000 tonnes of sugar. At least 2 mills have been shut down; there is talk of transforming the plantations into seed farms: a reorganization project was examined by the World Bank but did not work out; another one, less ambitious, is under study. The shock occasioned by this huge financial drain, no doubt explains the President's statement above, which speaks in general of the "management failure" of State Companies.

The new statute defines 4 kinds of enterprises:

- Public Administration Establishments (35 in number at present), which must follow the same budgetary rules as the administrations, have the same wage scales, etc.

- Public Industrial and Commercial Establishments (PICE) which are also under tightly controlled management (they may only deal with a State Bank and, therefore, have no freedom in financial management). They number 19 and, like the foregoing group, have no equity capital; part of their income comes from the State budget.

- State Companies, which have the status of limited companies with their capital belonging entirely to the State. Their management is autonomous, under the responsibility of a Board of Directors of which the majority represent the supervisory Ministries. Only 7 of them remain. They numbered 30 in the past, but several were transformed into PICE as a sanction, in order to force budgetary discipline on them; others were ceded in part or wholly to the private sector.

- Mixed Economy Companies in which the State may be a majority or minority shareholder. In this case, about 150 still exist.

The purpose of the reform, carried out by an inter-ministerial committee led by the Finance Ministry was mainly financial: the weight of the parastatal sector on the budget deficit was intolerable at a moment when equilibrium had become the main policy objective. (Only later did the IMF and the World Bank become interested in this sector). The Finance Ministry admits that the reform was pushed too far in certain regards: some boards supplying agricultural extension services do not function properly within a rigid budgetary framework; and the reduction in their personnel's salaries (20% to 40% in order bring them to the level of the administrations) and in their means of action has lowered their effectiveness. Now that expenditure is under control, other more flexible rules will have to be sought.

3. Investment Decisions

For the two first categories of parastatals, which are dependant on the Budget for their financing, investment decisions depend on the Ministry of Finance. This Department retains a right of approval where new public money is to be committed in State Companies or mixed ventures.

The Ministry of Industry is competent to grant to new projects the benefits of the Investment Code ("Agreement Prioritaire"). This applies to private as well as to public companies.

An interesting development arises in connection with the new technique of "Planned Contracts". The most significant example concerns one of the largest State Companies, Palm Industrie and was approved by the Government in 1984. The financial agreements were reached in 1985 with a group of international institutions.

It provides that over a five year period, Palm Industrie will be responsible for a large-scale investment programme, to be carried out partly on its own account, partly through village plantations. It fixes the share of self-financing the contributions of the Government and of the foreign lenders.

Palm Industrie will build additional capacity to process its own and the villagers' new output (which it buys at prices fixed by the Government at a level far higher than its own production costs). It will supply technical assistance in the new areas, where there is no experience of palm tree cultivation.

As the work progresses, Palm Industrie presents the invoices for reimbursement of their share by the Government and the foreign lenders and the delays in obtaining the release of funds create a heavy burden on its treasury. In addition, the fall in the price of palm oil from 1985 to 86 (expressed in FCFA, the average New York quotation declined from 38.5 to 15.3 thousand per ton), makes the rate of investment impossible to sustain on the basis of existing financial arrangements.

This project thus presents a test case for the technique of Planning Contracts: will it show the flexibility required for carrying out its main purpose under different and more adverse conditions?

It also underlines the role of public enterprises: the Plan does not aim at minimizing production costs (for that purpose it should have relied exclusively on industrial plantations), whereas the emphasis placed on village cultivation serves primarily social and distributive objectives.

4. Prices, domestic and foreign trade

The price system has been extensively liberalized and the list of prices where changes are subject to prior authorization or ex post control ("homologation") has been much shortened. Recourse however is still had to these procedures, even where they are no longer compulsory: thus firms selling intermediate goods on the domestic market, will seek to obtain the "homologation" of the prices they charge, in order to obtain legitimacy and facilitate negotiations with their customers.

By and large however, the price system is based on international prices, plus the rate of protection. Exports of manufactures account for nearly 25% of value added in that sector (probably some 10% of turnover) and show a strongly rising trend, supported by Government subsidies to offset the extra costs arising from tariffs on inputs.

5. Human Resources Management

Public enterprises narrowly defined are organized like their private counterparts. Even when the Government is sole owner, it usually appoints to the Board of Directors some private business men on the basis of their personal experience. The Board of course includes representatives of the Government, but without strict rules being defined (thus in the case of a mixed PIE, there were two representatives from the Ministry of Finance, but none from either Industry of Agriculture, which were formally the parent Ministries).

The Shareholders' Assembly is basically composed of the same people as the Board and plays little or no effective role.

Boards themselves meet but 3 or 4 times a year and thus hardly intervene in management, where the Managing Director carries the central responsibility. He is appointed by the Government, as are also the Commissioner for Accounts and the external Auditors.

The Managing Director choses his senior executives and has his choice approved by the Board. There has been no pressure from the Government for the replacement of expatriate personnel: this has taken place gradually for economic reasons (they are very expensive), as national managers have gained the required experience and shown themselves well qualified.

Wages and salaries are fixed by collective agreement and are well above the civil service level. In the context of the austerity measures imposed on the public sector as a whole, their purchasing power has however declined in the last few years.

There is little over-manning. Unskilled labour is to a considerable extent supplied by immigrant workers from neighbouring countries. Thus when declines in production or financial constraints imposed retrenchment, enterprises enjoyed considerable flexibility in personnel management.

6. Relations of PIEs with the state

Supervision of public enterprises is at least twofold: the Ministry of Economic and Financial Affairs (Directorate of State Portfolio) and the technical supervisory Ministry. Co-ordination between Departments is imperfect: the Ministry for Industry is too recent in nature to have effectively extended its powers over enterprises that in principle fall under its authority. All matters concerning Priority Approval (the investment code) come under its competence, but the Ministry of Agriculture continues its technical supervision of agro-industry and the Ministry of Trade its supervision of prices.

As far as State Companies are concerned, supervision ought to be exercised, in principle, through the Board of Directors. The Technical Ministries, however, are not sufficiently used to this sort of management and continue their supervision by means of administrative interventions which do not respect the rules laid down by the new institutions. The Board of Directors only meets 2 or 3 times a year and its meetings serve to allow civil servants who are on the board to ask questions in order to complete their reports to their respective Ministries; For important decisions (or in case of an unexpected deterioration of the situation), they must refer to their Ministries; and if it is really serious, the Council of Ministers will be informed. All this implies that it is the Director General who in fact exercises management powers and the Board of Directors generally limits its role to ratifying decisions already taken or approving those that are put before them.

The context appears to be similar in the mixed enterprises. Civil servants, who may be extremely competent in their field, are not trained in management skills. Thus, even when the State holds a majority position, its technical supervision is rather loose and private shareholders, even if a minority, exert an effective control on the Managing Director (by the new company law he is chairman of the Board as well) through the Board of Directors. Sometimes, the State, as major shareholder, allows the private sector a role in management out of proportion with its share in capital.

The Ministry of Finance watches closely over some 30 public enterprises or establishments (whatever their legal status), which weigh heavily in the economy and which absorb most of the State's subsidies. In their case, the results of operations are noted; their forecasts for the current and following year are revised every 3 or 6 months, with the IMF staff taking part. The approach is thus entirely different and linked to public finance equilibrium.

Chapter IV

KENYA

1. Introduction

Kenya has experienced an extended period of rapid industrialization, with the annual growth rate of value added at constant prices exceeding 10% between 1965 and 1980. The end of the commodity boom, periods of drought with a severe impact on agriculture, and increased difficulties in the export of manufactures, have since slowed down progress to the more modest rate of 3.8% a year from 1980 to 1985.

Even heavier constraints appeared on the balance of payments and on public finance. The currency was progressively devalued by over 50% from 1981 to 84, but approximately stabilized in relation to the dollar after that. A number of domestic policies were revised in view of domestic financial stringency. For instance the Government announced that it would no longer hire automatically all students graduating from the university, since the growth of the civil service must be stopped.

The 1982 report of a high-level working party set up to review Government expenditure, focussed its attack on the parastatal sector: its growth had been spectacular (over 150 'Statutory Boards' had been established by acts of Parliament to fulfil a wide variety of functions), but it was poorly managed, financially irresponsible, and its deficit was a heavy burden on the budget. Policy since then has insisted on financial self sufficiency and better management in parastatals.

2. Organization of PIEs

PIEs usually are subsidiaries of various Statutory Boards, which act as holding companies, either as their main function, or as an accessory to other responsibilities, notably in the field of agriculture.

Regular holding companies include the Industrial & Commercial Development Corporation (ICDC) with 18 subsidiaries and 32 affiliated companies (the first category implies majority, the latter minority, shareholding); the Industrial development Bank, more oriented towards credit, but with share ownership in 25 companies; the Development Finance Corporation of Kenya etc.

Such holding companies have the status of statutory boards, with the State as sole owner. They borrow both abroad and on the local market.

The Industrial Development Bank receives credits from the World Bank among others, to finance small enterprises.

On the other hand, Boards set up to supervise and promote different branches of agriculture, have also set up their own PIE subsidiaries, for instance in tea, cotton and cereals, while the Agricultural Development Corporation owns sugar mills and a variety of other food processing plants.

Another group of PIEs belong directly to the Government, and their shares are vested in the Ministry of Finance. They include 3 sugar, 1 textile and 1 paper mill; 2 cement and 2 chemical plants, an oil refinery etc.

The status of PIEs however is not always clear: in some cases, ICDC considers that a company belongs to the Government and that it has been entrusted with the management rather than saddled with the ownership. The Treasury however appears to hold the opposite view. Such ambiguity means that it is not clear who must then bear the losses if such a company fails to balance its accounts.

While often created by Statutory Boards, all PIEs are incorporated as commercial companies had have the same structure and organs as their private counterparts. They also operate under ordinary commercial law. Many of them include minority private interests, often of foreign origin.

This is notably the case for those which belong directly to the Government. Foreign companies usually subscribed a small share of the equity and supplied the equipment; they were also to provide technical assistance and sometimes the management. In some cases, the partners were not well chosen, and after supplying equipment and services at inflated prices, they pulled out, a process made easy when the venture was under capitalized. Although other experiences were more successful, the Government has decided no longer to enter into partnership with foreign firms.

3. Investment decisions

It is in the field of new investments and projects that the autonomy of the PIEs and holding companies is most limited. New proposals may arise in PIEs, in one of the holding companies or with a foreign partner. They usually go to ICDC first, who exercises leadership among the finance institutions, and is alone equipped with a special Project Appraisal Unit. This unit carries out the first study, and if its conclusion is favourable, the management submits the proposal to the ICDC Board. If it is approved at that level, it goes to the Ministry of Commerce and Industry (the parent ministry for ICDC), which transmits it with its own recommendation to a body called the Parastatals Advisory Committee.

This is a powerful organization, under the chairmanship of the Chief Secretary (the head of the civil service, in the President's Office). It includes the Permanent Secretary to the Treasury and other senior Officials, and has its own secretariat. It must review and appraise all proposals involving Government finance. Thus new expenditure for investment (as well as reorganization of existing firms involving new money) comes under its responsibility. Since its reflects the views of the President's Office as well as the Treasury, its decisions are considered final.

The Committee's decision is handed down to the Ministry, which duly transmits it to the ICDC Board. This does not however resolve all problems: specific authorizations have still to be obtained from all departments, and local authorities concerned, including the Central Bank's for the required allocation of foreign currencies.

It has been estimated that 30 specific approvals from various authorities are required for every private investment project, and the whole process may take as long as 3 years (op.cit. 6.28). The same procedures apply to parastatal projects, although they may be in a somewhat better position to speed up the process (The Government has announced its intention to streamline these procedures).

Such bureaucratic controls of course in no way guarantee the quality or success of projects. In fact a number of ICDC subsidiaries have run into difficulties, in particular in the textile sector (which represents nearly 38% of ICDC equity investment, and, because of its losses, nearly 65% of ICDC loans): out of 8 subsidiary companies in this sector, only one was returning a profit and four were facing serious or severe difficulties.

The same procedures would apply for proposals arising from one of the Boards under the supervision of the Ministry of Agriculture.

4. Prices and Trade

PIEs in Kenya operate mainly in a competitive environment. The import regime is liberal, with few quantitative restrictions, and a moderate level of tariffs. Prices mostly depend on the market, with control limited to a few basic commodities and to monopoly situations. The exchange rate having become flexible after 1981, the domestic currency is not overvalued.

Competition from imports nevertheless creates problems in a number of branches. The difficulties of the textile PIEs have already been mentioned. Even more severe are those of the sugar industry (where firms belong either directly to the Government or to the Agricultural Development Corporation). Here the figures for 1983-84 actually show a negative value added, implying a gross deficit higher arising from both drought at home and depressed conditions on the world sugar market; the main exporters, who enjoy important quotas on protected markets, are prepared to sell the rest of their production at prices which barely cover marginal costs. Under such conditions, it may prove impossible to retain a national industry, even if it is efficiently run, as well as an open door policy;

While industry serves primarily the domestic market, exports are also of significant importance (manufactured goods account for 13% of total exports, a high figure by African standards). PIEs are expected to contribute in this field as well, which enhances the requirement for efficiency: moderate costs, acceptable quality, and an effective sales organization. The decline in purchasing power in some of the neighbouring countries, notably Uganda and Tanzania, has been a factor in the slowing down of progress.

5. Accounting and finance

Accounting standards are good and carefully watched over. In fact the control Authorities include an Inspectorate of Statutory Boards, with responsibility for seeing that such Boards (and their subsidiary companies) abide by Government regulations and follow regular accounting practices. In addition, PIEs are subject to external auditing, and the firms who conduct it are independent and technically competent. Accounts are published (with but reasonable delay), with the Auditors report attached: where they find it appropriate, they call attention to management's optimism concerning such items as bills to be collected or provisions for potential losses.

Problems are indeed numerous in the financial area. First many PIEs insufficiently capitalized, and found in some cases that their own funds, plus long term credits, did not cover the cost of their fixed assets. They thus depended on bank credit for the whole of their working capital (and sometimes more). When starting up losses reduced the bankers' confidence, some PIEs found themselves in difficulties, compelled to operate from hand to mouth, and incapable of reaching of satisfactory rate of production.

Second, financial practices leaves much to be desired, and there exists a fairly widespread slackness in paying off liabilities when they fall due. This has been particularly the case in the parastatal sector (but it exists in private firms as well). It results in a major problem for the public holding companies: their accounts are usually balanced with a small profit (helped perhaps by some optimism with respect to provisions for losses in some of their subsidiaries), but their cash flow is usually woeful inadequate. Frequently, neither interest nor principal are repaid on loans, and thus the increase in the credit they extend is involuntary more often than not. In the case of the Industrial Development Bank, arrears on interest and principal repayment amount to nearly 50% of loans outstanding.

This even happens with profitable firms who find that non payment of debt is an easier means of acquiring funds than borrowing. Cases have even been quoted where dividends declared at a shareholders assembly were not effectively paid out.

Since the Government now expects the parastatal sector to be self-sufficient, the development banks all suffer from acute financial stringency, which severely limits their capacity for new industrial initiatives. This is one of the channels through which the fairly restrictive credit policy of the Central Bank is reflected in the level of investment. The small loans scheme at ICDC is currently in abeyance because of these financial problems.

6. Human resources management

The direction of the public holding companies reflects the mixed character of the economy. One may take the example of ICDC, the most important of them. It has a 10-man Board, with the Permanent Secretaries from Industry and from the treasury as members ex officio (as well as the Executive Director). The Chairman and the other members of the Board are from banking and industry, some parastatal but mostly private. Their appointment formally depends on the parent Ministry, but in fact they are chosen by the President's Office. The same applies to the executive Director as well. His appointment is for a three-year term, renewable. The last two nominations were from the ranks of the corporation's senior management, respecting the professionalism required in such a position.

The senior managers themselves are appointed by the Board, which has complete autonomy in this respect. Together with the Executive Director, the Board decides on hiring and promotion of staff.

Subsidiary companies are run, in principle, on a purely commercial basis. The ICDC Board appoints the Boards of these companies and their managing director. (It sometimes happens however that the 'long arm of the Government' imposes some appointments). In the same way, for companies in which ICDC has a minority interest, it is the ICDC board that appoints its representatives, again choosing them for their competence.

ICDC, a long established corporation, has a far better qualified and more experienced staff than the other, more recently created, parallel institutions. It includes, as already mentioned, a project appraisal unit, as well as another unit which could be described as a trouble-shooting unit. Thus when a PIE must undergo a process of reorganization, leadership on the public side almost automatically goes to ICDC, even if it is not the most important shareholder. The capacity of that unit is however limited, and there can be a bit of a queue of firms awaiting its services.

The agricultural Statutory Boards which run a number of PIEs are usually less professional and business oriented. The Tea Development Authority, which runs 8 factories and has minority interests in 14 others, has however done an outstanding job in promoting, organizing and controlling a large group of private firms.

The Investment Division of the Treasury, which runs and controls the PIEs directly owned by the State, combines the functions of the holding company and of the parent Ministry, appointing both the Board and the top management, an monitoring their operations. In a number of cases however, where it feels the lack the business experience, it has awarded management contracts to foreign firms (not always shareholders).

This policy also reflects the fact that there is a shortage of competent Kenyan managers for the PIEs, and some at least of the complaints frequently made by the Government about the inefficiency of the management of parastatals, are certainly justified.

7. Relations of PIEs to the controlling authorities

PIEs are supposed to be run like private firms which would be the subsidiaries of a large holding company. The latter monitors their performance, and renders them assistance (financial arrangements, management consultancy, trouble shooting). In fact only ICDC is effectively equipped for these purposes, and in other cases, management can look only to their Boards for help and advice.

If things go badly, ICDC will also assume responsibility for reorganization (in 1986, two of its subsidiaries were undergoing that process). To the extent that additional capital is needed, the implication is that ICDC will prepare professional proposals for submission to the all powerful Parastatals Advisory Committee. In other cases, where management is weak (which is often the case with firms needing reorganization), the procedure can drag on for a long time before proposals are put forward that meet the standards of the Committee.

In some cases however it is doubtful that the same standards are applied to PIEs as to private concerns. For instance, in the case of the sugar mills, which was mentioned above, private firms would have obtained protection from imports or closed down. With PIEs, the Government has been unwilling to grant the first or to enforce the second.

By and large, the impression is gained that the technical Ministries are weak and the main voice heard in decisions concerning PIEs is that of the Treasury: other civil servants will tend to defer to its opinions. It is then in the nature of the case that the main stress is placed on financial balance, or, better still, profits: if the Government puts money in an undertaking, it will expect dividends.

This represents a major change in policy from the period of rapid growth and easy money, when Statutory Boards and parastatals proliferated, usually with poor financial results.

The Governments now argues that financial criteria constitute the only basis for evaluation of PIE performance, by dismissing the importance of externalities: "Enterprises which are incapable of balancing their accounts under a system of reasonable protection are unlikely to bring a positive contribution to development. They are more likely to waste the country's resources".

This line of argument thus leads to a policy of disengagement from the industrial sector. On may quote here from a recent policy statement submitted to Parliament in 1986: "Kenya is fortunate to have a capable Civil Service that is skilled in managing the traditional tasks of Government. In recent years, however, Government's tasks have multiplied and gone beyond the traditional roles, into the management of parastatals engaged in a wide range of activities and into the administration of a myriad of frequently complex development projects in every district and sphere of activity. Central Government has reached the limit of its ability to manage competently a growing number of parastatals and development projects."

With particular respect to industry, the same document states: "The basic goals for industrial development can be achieved by the private sector acting under price and other incentives established by Government. In the face of severe fiscal stringency, direct investment by Government in modern industry would be an uneconomic use of scarce public resources that are urgently needed to support agricultural growth, extend rural infrastructure, and maintain social services. The structural adjustment strategy, which has been implemented progressively since 1980, is essentially a move away from direct Government involvement in manufacturing and other sectors where the private sector can operate effectively."

In pursuance of there policies, a task force on divestitures has been established, which has already resulted by Many 1986 in 4 companies being sold or returned to the private sector.

Chapter V

NIGERIA

1. Macro-economic trends and policies

Real GDP in Nigeria has shown a period of very rapid expansion linked to the development of oil resources. With the softening of the oil market in 1981, major deficits emerged both the budget and in the balance of payments accounts. Thus the current account deficit in 1982 reached 10% of GDP at market prices.

Austerity measures, already applied in 1983 were strictly enforced from 1984 on. The public finance deficit was reduced from 11 to 3% of GDP over 2 years, the current external account was again balanced in 1984, and showed a small surplus in 1985.

The cost of these policies was however heavy. In the case of the budget, as is usually the case when heavy and unforeseen expenditure reductions have to be put through rapidly, the axe falls primarily on purchases of goods & services and on investment, while wage expenditure and most subsidies representing legal or long term commitments are better protected. Among investments, since rescheduling and reassigning priorities is a difficult process involving protracted negotiations, the tendency is for cuts across the board. Thus after only 3 years, there are already many complaints about inadequate maintenance of existing facilities, and shortage of essential supplies (such as drugs in the hospitals).

In macro-economic terms, total investment was drastically cut: value added in the construction sector fell by 50% between 1982 and 85, and real GDP declined by nearly 12% over these 3 years, to a level no higher than it was 10 years before.

Industrial production, starting from a narrow basis, had shown in the 70's an exceptional rate of growth: 16% per annum from 1972 to 82 (implying more than a four-fold over 10 years)[1] . Being however the sector most heavily dependent on imports for inputs as well as spares and machinery, it was particularly hard hit by the drastic import restrictions applied in 1984. Some improvement in the procedures for allocating foreign exchange allowed for a modest recovery in 1985. Nevertheless value added in real terms declined by 18% from 1982 to 85, with of course

[1] In a 1981 survey of 1244 "major" manufacturing firms, (with nearly 300.000 employees in 1980) more than 60% of them had less than 10 year's existence.

very uneven incidence: vehicle assembly collapsed (1985 production was 13% of the 1982 level, one of the major plants was closed), textiles production fell by more than half, beer and soft drinks recovered their previous level.

Excess demand in 1984 (which drove up the consumer price index nearly 40% in that year) meant that industry was essentially constrained on the supply-side: whenever inputs could be imported, sales were no problem. The decline in real income has already modified the situation: prices rose only 6% in 1984. In 1986 however, with the collapse in oil prices (oil accounted in 1985 for 97% of export earnings), industry will face renewed procurement difficulties.

This points to a major weakness of the manufacturing sector: rapid growth in a period when oil made foreign exchange freely available, and an overvalued currency, made imported inputs cheaper than domestic products, resulting in a structure of industry essentially dependant on imports, with weak or inexistant backward linkages, and focussing largely on final processing or assembling. The decline in agricultural market crops has further weakened this structure: agro-based industries supplied 10% of exports in 1970, a share that has now fallen to 1%. The textile industry, the most important in terms of employment, which up to 1976 was self sufficient in cotton, now faces a gap of nearly 75% in domestic supplies. Nigeria which in 1970 was a major exporter of palm oil, has now become a large net importer.

Fully recognizing the difficulties arising both from resources constraints and from inadequate policies in the past, the Government has stated new orientations for policy, which may be summarized under 3 headings.

1° Restructuring the industrial incentives system, including revision of tariff & trade policies, export incentives, investment incentives, regional dispersal and foreign investment policies. A first reform of tariffs took place in 1984. The importance of quantitative restrictions has however limited its effect. More importantly the so-called "two tier exchange rate system" has come into effect after protracted discussion in September 1986: the auctioning of foreign exchange has resulted in a deep devaluation of the currency, from about one naira per dollar, to nairas per dollar: this completely modifies the system of relative prices. It should help legal exports and eliminate illegal exports.

2° Measures to rationalize and improve the efficiency of major federally sponsored public industrial projects, including strengthening procedures for planning, implementation and monitoring of such projects. A Policy

Analysis Department will be created in the Ministry of Industry to study policy reform measures. Its proposals will be reviewed by a high level interministerial policy group, the Industrial Development Co-ordinating Committee[1].

This is accompanied by an immediate change in priorities. On the one hand, emphasis is placed on the development of local resource based industries, or those presenting forward or backward interlinkages[2]; on the other hand, in all public capital expenditure programmes, the accent will be on repairs, maintenance and rehabilitation, and on completing projects already in the pipe-line.

In view of the excessive weight of public enterprises on State resources, the Government has decided on a gradual process of divestiture of all its holdings in non strategic productive activities. However most of the enterprises concerned are in need of rehabilitation before they can either find a buyer, or operate effectively in the public sector. The possibility of improved management should be an essential criterion for divestiture or retention. This policy of privatization has been stated only in general terms and no examples have been quoted of implementation so far.

Over the next few years, industrial policy will face severe difficulties. At present industry can operate only if it obtains adequate foreign exchange to import its raw materials and spare parts requirements. Devaluation and the auctioning procedure should ease this problem, must mostly through limiting demand to the rate of production that can be sustained by a severely deflated domestic market. Since foreign exchange availabilities are unlikely to increase much in the short term, such current imports are likely to absorb most of the allotment, leaving little room for the purchase of capital goods needed for industrial restructuring and rehabilitation[3].

2. Public Industrial Enterprises

The industrial sector has been given high priority in development plans since the mid sixties, with emphasis on import substitution. After the first rise in oil prices, greatly increased public direct investment has

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[1] A major technical assistance project is proposed by UNIDO and the World Bank, to help these bodies organize appraisal techniques and policy analysis.

[2] Two significant examples may be quoted in this respect: the Government has decreed that all pats for vehicle assembly should be locally produced (but progress in the direction of that long-term goal are very slow); in another area, all imports of wheat and flour are forbidden from 1987 on.

[3] Thus major projects in the fields of steel, petrochemicals and oil refineries will have to be scrapped or at least postponed for an extended period (with heavy additional costs for those which have already been started).

been a major feature of this strategy: massive federal investment has been directed mainly to large-scale, capital intensive basic industries, such as steel, pulp and paper, oil refineries, cement and fertilizers. There have also been investments in consumer good industries, but mostly at the state rather than at the Federal level.

There are at present more than 100 commercially oriented enterprises owned by the Federal Government. Most of them have been making losses and have called on the budget not only for heavy capital expenditure but for current subsidies as well. As of October 1985, Federal Government investment in parastatals stood at 23 billion nairas (roughly 1/3 of GDP), of which about half in the form of equity, half in the form of loans. Subsidies to parastatals represented 14% of current expenditure in the 1985 budget.

Among the reasons accounting for the generally poor performance of PIEs, conflicts of objectives will be taken up first. A number of industrial projects have been burdened with social goals and heavy infrastructure requirements. For instance, in the case of the new steel mills, the UNDP/UNIDO mission (Review of the Industrial Sector, May 1986) suggests that "investments in housing, infrastructure and amenities, which do not support production, could be sold off to a separate organization which would be expected to administer them in order to recover the investment, to perform maintenance, and perhaps, make a profit. There is no reason why the depreciation of such amenities should be charged to production which would not be very profitable ever under more favourable circumstances" (in fact, the 1984 accounts show the steel sector with a negative gross value added, in effect, operating losses exceeding the wage bill).

In some cases, regional (or purely political) considerations have over-ridden economic calculations to determine the location of industrial plants, or indeed the choice of projects: some of them, for instance the large sugar refineries, could not hope to obtain economic viability. In addition, the previous (military) Government had an apparently well deserved reputation for extensive corruption.

3. Choice of Investments

Investment projects may arise within the administrations, the major parastatals, or the Nigerian Industrial Development Bank.

The latter is an apex institution, supplying funds and controlling a number of State Development Banks. In the past, it received low interest loans from the Federal Government, at present it is financed mostly by international institutions. It prepares projects itself or puts in shape proposals brought forward by private promoters. It is limited to a minority share in the equity, but also makes loans. It usually has a major say in the organization of new ventures, but far less in their current operations, since it usually has only two representatives on their Boards of Directors. Most projects controlled by the NIBC are small or medium scale.

Projects of major importance lead to the establishment of parastatal companies, responsible for carrying out the investment and subsequently for the management of operations.

For them as well as for the administrative departments, any major expenditure must go into the budget and can be spent only after the appropriate authorizations have been granted: the rule is that any commitment of public money beyond 5 millions nairas (before the devaluation of October 1986, approximately the same amount in dollars) must go for approval all the way up to the Cabinet. Nigeria of course is a very large country, the Federal Budget for capital expenditure reached nearly 5 thousand million nairas in 1985, and the rule applied to current as well as to investment contracts. Thus any meeting of the Government would be likely to be burdened with a long list of projects or contracts to be approved.

This procedure was of course initiated as an anti-corruption measure and it may have had some deterrence effect, but it is clear that the Cabinet Offices were in no position to make a serious assessment of the validity or justification of the expenditure proposals submitted to them.

The only exception to this rule (as to many others) concerns the oil industry. The oil companies operating in Nigeria are joint ventures between the Government and private groups, with the Government holding 60 to 80% of the equity. Its interests are managed by the largest parastatal, the Nigerian National Petroleum Corporation. All operations of these joint ventures (for NNPC alone, an expenditure of about $1 thousand million a year) remain outside the budget and are exempt from the system of authorization.

On the other hand, NNPC's own investments, such as drilling on its own account, building refineries, laying down oil, and now gas, pipelines (altogether over 3000 kms of them), starting up the petrochemical industry, all come under the budget and are subject to the approval procedures described above.

NNPC is well equipped to carry out itself the study and evaluation of costs and returns on its proposed investment. This is necessary, since it will be clear that the control procedures are at best ineffective. Indeed, a number of cases have been quoted where project design or the technical partners were ill-chosen, resulting in unnecessarily high costs. Other major sources of cost-overruns have been inadequate co-ordination of the works and delays in completing the required infrastructure. For instance, without taking into account the cost of the railway line need to bring imported coal up from the coast, the estimated cost (as of 1985) of the integrated steel mill at Ajaokuta is well over $ 5 thousand million, which appears considerable for a rated capacity of 1.5 million tons[1].

4. Prices and Foreign Trade

Much of Nigerian industry has enjoyed high, if erratic protection. The vehicle assembly plants for instance, enjoying a monopoly position on the domestic market (the effective protection rate in 1980 was calculated by the World Bank of 214%), showed in 1983 the highest rate of profit of any industrial sector, and their value added was over 56% of gross sales, the bulk of which was of course gross surplus. The figure is remarkable since, measured at international prices, their value added is probably close to 0 (after all, packing and crating the 4500 odd parts that go into the making of a a car, is almost as expensive as assembling them). It was mentioned earlier that this industry collapsed in 1984 and 85 because they could get no import licences. It has also been stressed that the protection system is at least partly responsible for the high degree of import dependence: some of the agro-industrial industries have low, or even suffer negative, protection.

Quantitative restrictions that dominate the scene after 1983 provide an even more erratic form of protection. Some manufacturers who where lucky (or clever) and obtained import licences made very large profits, thanks to the scarcity that prevailed in most markets. Others had to curtail operations and laid off pat of their labour force. In 1985, according to the Central Bank some 60% of available foreign exchange was reserved for industry (for raw materials and parts). With the further drop in oil prices, the total will decline, an the proportion can hardly increase. It remains to be seen how the new system of auctioning foreign exchange will modify allocation.

Another point must be mentioned about pricing policy. Price controls applied at factory gate and in some cases made industry unprofitable (cement was quoted as an example). On the other hand in periods of scarcity and demand pressure, retail prices rose uncontrolled. The resulting rents were absorbed by retailers (in some cases manufacturers established their own retain outlets). Public enterprises were of course

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1 A little more than half the expected expenditure has already been carried out, and the current limitation of resources will unavoidably postpone or even call into question completion of the project.

excluded from such wind-fall profits. It is as yet unclear whether excess purchasing power will be fully absorbed by the price increase following upon devaluation.

5. Financial Management

Parastatals are supposed to present to the supervising technical ministry and to a department of the Ministry of Finance their previsional budget and their balance sheet and statement of accounts; These rules are however not generally observed and some important parastat 4 or 5 years behind with their accounts. There is little accountab te from a World Bank Report "the lack of adequate accou , financial control and performances appraisal systems i e. The ad-hoc financial reporting to ill equipped supervising e also meant that funds have often been allocated to parastatals without adequate justification and accountability".

There are however strict control rules: the manager of a parastatal cannot commit new expenditure of one million nairas or more (before the devaluation of October 1986, the official value of the Naira was a little more than one dollar). The Board of Directors could go as high as 5 million nairas. As mentioned above, anything beyond that amount had to be approved by the Government (The same rule applies inside the administration: an individual Minister could commit expenditure only up to 5 million nairas: beyond that any project must be referred to the full cabinet. The Federal capital expenditure budget for 1985 was 4747 million nairas).

Financial laxness is also widespread. Thus the Nigerian Industrial Development Bank, which also manages a certain number of PIEs on behalf of the Government, complains of constant difficulties in recovering interest and amortization due on its loans, even when the cash flow of the debtor would allow him to service his debt. This laxness extends to the private sector as well.

According to a World Bank report: "Parastatals, tied to civil service compensation and recruitment policies, are typically overstaffed with under-qualified personnel, yet are unable to attract or retain the calibre of staff necessary to manage their operations effectively. Moreover, managers generally do not have the autonomy in vital areas of day to day decision making, which can affect the performance of the enterprises negatively. Political patronage and interference add to these difficulties.

Top appointments (Managing Directors and Board Members) are made by the Office of the President; recommendations of the Supervising Minister are however often overruled. Engineering and technical management posts are still often held by expatriates (although there are growing members of Nigerian graduate engineers who are unemployed). Other management posts (personnel finance and accounting, commercial as well as top management) are held by Nigerians. Contracts for the building of a new plant usually provide a detailed time-table for technical assistance, the training of local staff, and the timing of replacement of expatriates by Nigerians. This applies to private projects as well. Here again This quotation summarizes the diagnostic of the 1981 Presidential Commission on Parastatals, and of the 1984 Study group on Parastatals, on the basis of which policy reforms have been proposed.

6. Human Resources Management

Here again, the exception is provided by the oil sector. Here the Government has realized the difficulties faced by the NNPC in attracting and retaining skilled personnel in a highly competitive field, and have approved distinct scales of salaries and fringe benefits, substantially higher than in the civil service (but well below those prevailing in the oil companies). Revision requires Government sanction. Management training is a major preoccupation within the corporation, which has set up a special institute for the purpose.

Owing to its importance, the Minister for Petroleum himself is chairman of its Board of Directors, and the Permanent Secretaries of Finance, of Planning and of Petroleum are among its members. The Board also includes three members chosen by the Government from the private business community. It does not appear to play a very active role, and the corporation is effectively run by the Managing Director assisted by a management committee.

This chief executive is of course appointed by the Government, and there has been a fairly high rate of turnover in the job. Senior managers, appointed from within the corporation, have experienced a great deal more stability.

7. Relations of PIEs with the Government

Control over PIEs is somewhat loose: as long as they do not require subsidies or additional money, there is little interference with their management. The situation changes of course as soon as their cash flow becomes insufficient to cover their expenditure: this brings down on them the whole machinery of Government, Finance as well as the parent Ministry. Procedures for evaluation and justification for additional requirements appear however to remain somewhat discretionary.

As long as money flowed in easily, requests were readily granted, but efforts were made to tighten up management and control over operations when the decline in oil prices brought about austerity in the public budget. This implies that financial balance has been the implicit criterion for evaluation.

The case of NNPC is of course quite different: rather than requiring subsidies, it is the main supplier of Government revenue. There is a monthly meeting with representatives of Federal and State Governments and the Central Bank, where the NNPC management announces the current revenue which the corporation can transfer to the exchequer as a result of its oil sales. This is course constitutes the focus of interest: debate centres on ways and means to increase this transfer, and little interest is shown in the internal running of the corporation.

Chapter VI

SENEGAL

1. Economic trends and policies

Senegal has had no real break in its growth rate which was already low in the sixties (2.75% a year between 1960 and 1970) and progressively weakened ever since (2.25% between 1970 and 1979; 1.85% from 1979 to 1984).

Very large variations occur however around these trends, which are linked with groundnut production levels, in turn dependent on rainfall. However, the trend has been downward: the most recent good year (1982-83) was far below 1976-77. Variations have been even more pronounced for exports (all products included, shelled groundnuts, crude and refined oil, oil-cakes). The value of exports fell from 75.5 thousand million CFA francs in 1977 to 9 thousand million in 1981, but rose again to 58 thousand million in 1984. Some diversification has been achieved through fish (55 thousand million CFA francs in 1984) and phosphate based (fertilizers, etc) products. The farmers' purchasing power, however, is still highly dependent on climatic hazards.

In bad years, resource balances have been largely in deficit. In 1981 and 1982, net national savings was negative and the balance of payments on current account reached a record deficit of 23% of GDP.

In 1960, Senegal was by far the most industrialized West African country. Industry, broadly defined, represented more than 20% of value added. In recent years, however, growth in the manufacturing sector has been slow (less than 3% a year between 1976 and 1985). In 1984, manufacturing industry's share of GDP was almost 18% as a consequence of a sharp fall in agricultural production during the '83-'84 campaign.

In 1986, the Government announced a new Industrial Policy which includes a progressive liberalization of prices, a far-reaching reform of the protection accorded to production and of export subsidies. The investment and tax codes will be revised.

Customs duties will be revised in order to ensure a relatively uniform protection rate for value added so as to eliminate the current excessive differences which encourage fraud, and so as to promote industrial integration. Quantitative restrictions which were managed in a "highly discretionary" fashion will be progressively eliminated, beginning with sectors where the negative effect on employment will be least felt (the first group of products were already liberalized in January and July 1986). A protective system against dumping will be established. Covenants with enterprises which guarantee a de facto monopoly to them will be renegotiated. The timetable concerning tariff policy is linked to that governing domestic price policy. In this regard, control over prices will be progressively eliminated (except for certain staple foods such as flour, sugar, oil, etc.). The timetable will be more rapid for products where effective competition exists (for most agro-industrial products the date has been fixed at March 1st 1987).

The revision of the investment code will reduce the extent of certain advantages (in future, no equipment will enter duty free but have to pay a moderate tariff) and will generalize access to them. The setting up of a single office is envisaged where a promoter could handle all paper work relating to different ministries.

A precise timetable has been laid down for all these reforms. It covers the preliminary studies, the setting up of interdepartmental working parties, the dates on which reports must be submitted, proposals laid down and decisions taken. Senior civil servants from the Ministries concerned are all involved in the process, and the timetable is watched over by the President's office.

2. Public Enterprises

The public sector plays a very important role in Senegal where it accounts for between 42 and 48% of value added. It includes:

1° 25 Public Sector Establishments which enjoy a certain degree of operational autonomy, but are treated as branches of the Treasury in financial matters and are subject to budget controls by the Finance Ministry. The most important among them is the Commodity Board (Caisse de Péréquation et de Stabilisation) which supports domestic prices of certain products as petroleum through subsidies. (In 1986, however, it perceived taxes since domestic prices were higher than foreign prices).

2° 6 State Companies and 55 Mixed Economy Companies in which the State is a majority shareholder (plus another hundred or so in which the State holds minority interests and which do not belong to the public sector for this reason). The most important in this group are the phosphate mines, a chemical processing plant and the Sonacos which controls the groundnut sector, buying production and processing it.

This public sector is now described as being "cumbersome, tentacular, inefficient and greedy for capital". Excluding the Commodity Board, losses amounted to 20 thousand million CFA francs in 1980/81 and 17 thousand millions in 81/82. Including the Board, subsidies were equal to 44 thousand million in 1983/84 and 33 thousand million the following year (about 5% and 3% of GDP respectively).

This is not all; some of these enterprises have also accumulated debts. The most flagrant example is ONCAD, a vast bureaucracy which held a monopoly position with regard to supply of inputs to agricultural cooperatives. When the State closed it down in 1980, it had to take over 94 thousand million CFA francs of debt (at that time, almost $450 million; GDP in 1980 was lower than 630 thousand million CFA francs).

This scandal served to focus attention on the problem. However, the Government had already decided in 1978 to temporarily stop the creation or acquisition of enterprises; and in 1979 the "Programme for Economic and Financial Recovery" stressed the problem of public enterprises and called for both divestiture and reform.

The policies were introduced very slowly. A working party (presided by the Director General of the Treasury) was established to analyse divestiture. In 1986 it recommended the outright sale of 15 companies and the partial privatization of 13 others. The Government plans to realize 5 of these operations before the end of the year. It is thinking about a system of loans which would allow the personnel of these enterprises to acquire part of the shares it plans to sell (some form of bank credit is also envisaged). For the rest, domestic entrepreneurs will be preferred, but without excluding foreign groups. (5 small public enterprises which were bankrupt have already been liquidated).

The next set of measures concern the rehabilitation of public enterprises (which will remain the public sector), and the method of "contract-plans" which will be progressively applied to them. This point will be taken up in the next section.

3. The system of "contrats-plans"

The procedure known as "contrats-plans" was scheduled in the 1979 Reorganization Plan. The first 5 were signed in 1981 and early 1982 with public enterprises that dealt with public transport, the construction of low cost housing and rural planning and development.

A second generation of contrats-plans were signed in 1984-1986 concerning 10 enterprises, among which the 5 earlier ones together with the typical public utilities (telephone, electricity, water) and other rural planning and development enterprises. Similar contracts are in an advanced stage of preparation for 5 other parastatals.

These lists only include two enterprises from the agro-industrial sector: one which supervises the cotton sector and is responsible for its ginning and marketing (it was already included in the first batch); and the Sonacos with similar responsibilities for groundnuts and oil processing factories: its contract should be signed before the end of 1986.

The elaboration of these contract-plans results from discussions between the supervisory Ministries (Finance and the competent technical Departments), the enterprise itself, and a section of the President's Office (the Contract-Plans Cell) which was especially created to ensure the management and co-ordination of the plans.

The procedure followed for elaborating the contracts is generally the following:

1° The first step lies in examining the objectives of the enterprise (which should result in the formulation of specific terms of reference for its operations), and the main difficulties it encounters.

2° An organization not connected with the administration (a firm of consulting engineers, for example) is then asked to further study the problems of the firm with special reference to the main deficiencies observed.

Recourse is had to an organization that is independent from both the enterprise and the administration for reasons of impartiality: the reorganization plan should be defined without involving those persons who will be entrusted with its execution or with its supervision.

3° On the basis of recommendations made in the study, a reorganization plan is elaborated. It can have far-reaching implications such as the transformation of a Public Sector Establishment into a National Company in order to increase its legal autonomy in matters of management; or the need for financial rehabilitation. (In some cases, it is necessary to examine reciprocal debts within the public sector, then proceed to setting them off against each other and, finally cancel or pay off the balance). Often this constitutes a necessary first step. At the same time, the reorganization plan can deal with management details. Thus, the following points have been mentioned (not all concerning the same enterprise):

- a phased reduction of surplus personnel; in one case up to 25% of actual employment levels. For 5 enterprises which are already being reorganized, 4000 jobs must be suppressed by 1989.

- recruitment criteria, personnel evaluation and payment schemes;
- a drastic reduction in the car fleet;
- lowering energy consumption;
- a complete reorganization of stock management;
- product and marketing services diversification;
- modifications in organization charts and the introduction of management by goals;
- the organization of internal controls in order to ensure the correctness of documents (accounting documents; personnel dossiers; etc.);
- the establishment of a legal department when litigation is important, etc.

4° A contract-plan is finally elaborated: it is a legal document whose execution can in principle be the object of proceedings before administrative or civil courts.

If an agreement cannot be reached by the parties concerned either with regard to the objectives assigned to the enterprise or the means made available (for example, the level of investments), it is the President's Office that arbitrates.

The contract-plan defines the objectives of the enterprise, for example, in terms of production levels, distribution or market share, price determination, cost reductions or productivity. It covers the main points of the reorganization plan and specifies a timetable for their realization (programme of action).

It lays down performance criteria or management indicators, which naturally depend on the aims fixed for the enterprise. They are often specified in terms of returns expected and financial ratios, but can also be in terms of the quality of service: for a rural development and planning organization, this may concern the dates at which fertilizers and seed must be made available to users.

On the enterprise's part, therefore, its commitments concern objectives, the strategy underlying their realization and the corresponding programme of action. On the part of the State, the contract-plan lays down the requirements for the reorganization plan, notably the material, human and financial means to be made available to the enterprise. The contract determines the subsidies which the enterprise can claim, and when they have to be paid. The investment programme is also included in the financial plan. These two points can also be submitted for arbitration to the President's Office if the technical supervisory Ministry, the Ministry of Finance and the Planning Department do not agree on them.

The contract must also specify the margin of autonomy allowed to the enterprise, and, in particular, which aspects of general policy remain the responsibility of the technical Ministries. These questions created difficulties in the first round of contract-plans. Naturally such solutions are relatively rigid, and therefore more easily applicable to public services than to enterprises exposed to commercial uncertainties in competitive sectors.

5° The execution of contracts is supervised by a committee which is presided over by a member of the Contract-Plan Cell attached to the President's Office. Representatives of the supervisory Ministries, of Finance and the Director General of the enterprise make up the committee. It meets at least twice a year.

The member of the Cell, however, follows events more closely: quarterly reports are presented by the enterprise; and the State Controller (who is a part of every public enterprise) makes his own regular reports. Any deviation from the programme of action can thus be quickly known. If there is need for intervening in the enterprise, the member of the Cell coordinates such acts. He will also contact the competent Ministries if the State's commitments are not met (for example, a reminder to the Ministry of Finance when the predetermined subsidies have not been paid at the fixed date).

6° It is too early to present a complete evaluation of the system: the Contract-Plan Cell is itself undertaking one. For this purpose, studies are being realized of all the actual contract-plans in order appreciate the results and discover weaknesses. These studies ought to be finished by October 1986, after which a meeting will be held in order to evaluate how the contract-plans are functioning and to decide what changes should be made in the methods used till now.

The persons in charge refuse to form any judgement on the system of contract-plans before the above studies are finished. We can only reproduce the conclusion of the brief note (see appendix) by Mr. S.A. Camara, director of the Cell.

"The system of contract-plans, even if not a panacea for the rehabilitation of public enterprises, at least contributes towards fixing clear and precise objectives for the enterprise, increasing its autonomy in management affairs and allowing the State to follow all capital movements towards public enterprises both at the level of operations and of investments.

"Given the weights of the parastatal sector in the national economy, the achievement of these basic objectives is indispensable for the economic and financial recovery of the country".

Two impressions, however, emerge: the Contract-Plan, with its precise requirements, may be a salutary shock for enterprises whose management had become routine and even inefficient (especially among the rural planning and development organizations); on the other hand, bad habits acquired over a long period of time are not lost quickly. Certain public services (especially in rural areas) still find it difficult to recover debts from their clients and consequently have problems attaining the financial results expected from them by the contracts.

Before the end of the year, a complete evaluation will have been realized and more detailed information become available.

Chapter VII

TUNISIA

1. Macro-economic trends and policies

Tunisia has experienced fast growth over a long period, at a rate of 4.8% for per capita income from 1960 to 1982. Rapid industrialization, and oil discoveries sufficient to supply 50% of exports and 20% of Government revenue in 1982, helped to maintain this trend.

The European recession in 1982, and the weakening of the oil market then resulted in much slower growth. Demand was however supported by domestic consumption, itself fed by a measure of wage inflation until 1984. The minimum wage (SMIG) had risen much faster than the cost of living: from 1976 to 81 its real purchasing power rose by 8% a year, and by 9% from 1981 to 83. Excess demand resulted in an external deficit which reached nearly 11% of GNP in 1984, and brought about a first wave of austerity measures: a reduction in consumption subsidies and public investment, stricter control over imports, freezing of the minimum wage (only in July 1986 was it raised again, but by less than the inflation of the two previous years).

From 1981 to 85, GDP growth remained however fairly satisfactory (about 3.7% a year), but a severe deterioration occurred in 1986. Oil prices collapsed, and a severe drought in 1985 (which immediately produced a bout of inflation) reduced the grain crop by 2/3 (from a maximum of 2 million tonnes in 1985 to an estimated figure of 650 000 tonnes in 1986).

A whole set of economic reforms, which had been discussed in connection with the preparation of the VIIIth Plan and of the Economic Budget for 1986, will be put into force more quickly and strictly than anticipated.

The Government declaration of Aug.19 1986 includes an assessment of current difficulties, as well as new policy guide-lines. Concerning internal problems, the Government makes the following points:

- Grain subsidies have been wasteful, without giving effective help to those most in need.

- Wages and salaries grew too fast until 1983, leading to more rapid growth in consumption than in production, and lowering the savings rate.

- Planning was inadequate for major investment projects: they did not meet minimal efficiency criteria, they had inadequate linkages with existing industry, and they absorbed too large a share of resources, leading to a lower level of employment creation than would have been possible with less capital intensive projects.

- The public sector grew too fast, the Government was too lenient in covering the recurring deficits of parastatals but intervened too much in their operations.

A number of measures are then announced, among which:

- A revamping of import policy: progressive elimination of quantitative restrictions (except on luxury products) starting with the inputs of export industries; a revision of tariff structure in order to reduce excessive protection and in order to promote backward linkages through the abolition of some import privileges; a lowering of average tariff rates which would modify relative prices and lower the gains from selling on the home rather than the export market.

- Promotion of manufactured exports (in 1985, they already accounted for more than 50% of goods, oil products having declined to 40%), through a 10% currency devaluation. The Government had already in 1972 created a system of free zones where firms exporting the whole of their production could settle, paying no duties, and enjoying large rebates on profits tax. This policy led to a notable development of the clothing industry. To make the system more attractive, firms will now be authorized to increase their profits, through selling 20% of their output on the home market.

- Pricing will be 'liberalized' wherever conditions are sufficiently competitive; for public utilities, prices, as fixed by the Government, will be adjusted progressively to bring them in line with production costs, so as to reduce required subsidies. Controlled agricultural prices will also be raised, in order to increase incomes and incentives. For other controlled prices, the present system will be modified as well: currently they are based on a fixed margin over declared production costs (two regimes in fact are current: one where a price increase requires prior approval by the Ministry, the other where it can be applied first and the justification verified later). According to the Plan, this method has on occasion induced firms to inflate their costs in order to increase their margin even at the risk of lower output and capacity use at these higher prices. In future, the calculation of costs will be based on a reasonable degree of capacity utilization, to induce firms to lower their costs.

2. Public Enterprises

2.1. Situation

Their role is of great importance in Tunisia: they probably produce nearly 25% of value added, carried out 40% of total investment in 1984 (as against 27% for private firms, 17% for the Government and 16% for households). In manufacturing and mining (excluding oil), they accounted in 1984 for 57% of investment, for 29% of value added and 18% of employment.

The Government declaration quoted above stresses that public enterprises show major weaknesses: financial deficits due to management inadequacy; overstaffing and lack of job responsibility; lack of control over investment; insufficient maintenance and the absence of market studies; finally, accumulated losses from 1982 to 85 amounting to 10% of GDP in mining, chemicals, cement and transport.

This critical assessment led to the following decisions:

- to maintain Government participation in strategic sectors;

- to encourage sound competition between firms and with the private sector;

- to withdraw from certain branches of production, through cession to banks, holding companies, or the private sector, under condition that activity be maintained, public and social interests safeguarded.

- to scale down the investment programme, dropping low priority projects and delaying completion for others;

- to revise the methods of control (this in fact has already been enacted, as will be discussed below).

Concern about the management of public enterprises is however not recent, and the first decisions on privatization go back at least to 1983. Committees to study and propose rehabilitation measures were set up in 1983-84 for 16 industrial enterprises, and the Government budget for 1984 included an important item (145 m. Dinars, i.e. 2.7% of GDP), to wipe out debts of these firms, or convert them into equity

2.2. Organization

There are many firms where Government participation in equity is low: a 1982 document gives a total figure of 550, of which 350 where this share exceeded 10%, and to which public control procedures applied.

These have now been modified by a law enacted on July 20th 1985, which defines more restrictively enterprises subject to public control. It creates two categories: 'parent companies', in which Government (central or local) participation exceeds 34% of equity, and 'subsidiaries', in which the share of Government and/or of parent companies exceeds 50%. These are controlled by the main shareholder (or the one appointed by the general assembly).

As a result of these changes, the number of firms under the tutelage of the Ministry of Industry, Management and Planning Directorate, has dropped from 89 to 27. This should make effective control easier.

On other points, the three laws of July 1985 (on control, public tenders, and accountability) are perhaps important mostly by giving precise legal foundations to the obligations of public enterprises and their managers.

Main responsibility is assigned to the Board of Directors (where the parent Ministry appoints representatives in proportion to equity): it must prepare and submit both to the parent Ministry and to the Department of Planning and Finance, which manages the Government portfolio, the following documents:

- minutes of meetings, to be held at least quarterly;

- previsional budgets, both for operations and investment, and the financing programme for the latter. Such budgets must be decided by Sept.1st, and forwarded within a fortnight. They must be approved by the parent Ministry, under advice from Planning and Finance: they have two months to formulate their reservations or objections.The Board of Directors, being informed, "will take appropriate action" (Art.22)

- balance sheets and operating accounts: "they must be established within four months after the close of the fiscal year" and again transmitted within a fortnight.They must be approved by the parent Ministry.

- periodic statements on the execution of programmes agreed with the Government ("contrats programmes"). "The Board is equally responsible for "the establishment of such contracts with the parent Ministries and their follow up" (Art.11) (at present, this is no more than a statement of intent).

- in addition, a monthly financial statement must be submitted, but this is not the responsibility of the Board.

The law also provides that the civil servant who represents the Government at the annual assembly cannot be a Director. It defines the rights and obligations of two civil servants assigned to the enterprise: the Financial and the Technical Controllers.

They must be invited to Board meetings, but carry far wider responsibilities. The Financial Controller has access to all accounting documents, must participate in budget preparation, follow its execution, inform regularly the authorities (and the parent company, if he is assigned to a subsidiary). "In general, he must control all operations liable to bear, directly or indirectly, on the financial situation of the firm. His signature must appear on expenditure or receipt authorizations, the list of which is fixed by decree" (Art.15). He is appointed by the Minister of Planning and Finance.

The Technical Controller is appointed by the parent Ministry and need not be a civil servant. He watches over technical management (equipment maintenance, stock control, production costs, energy consumption etc.); he appraises investment projects, where his concurrence is required. Where the law thus makes the approval of one of the Controllers compulsory, another law (of the same date) defines as a management misdemeanour "any act subject to control and taken without it" (Art.3). Such acts are sanctioned by fines "without prejudice to possible disciplinary or penal sanctions" (Art.4). The law also organizes a 'Court of Financial Discipline' to judge the authors of such misdemeanours (of which this was but one example).

In addition, the law provides that an Auditor, belonging to the Tunisian Order of Auditors and Chartered Accountants, must be appointed to audit the accounts of all public enterprises (Art.24).

Finally, parastatals "are subject to the general control of public services, to the general control of finances and to the control of departmental inspectorates" (Art.25).

The whole of this legislation is [illegible] recent and its application still runs into problems as will appear below.

3. Investment Decisions

Investments proposed by parastatals must be included in their budgets, together with the suggested means of financing. Important projects, requiring lengthy prior studies, should be included in the Five Year Plans.

New projects can arise within Ministries, Development Banks (which are themselves parastatals), or from the Authority for Investment Promotion (API). This agency studies and identifies new projects, carries out promotion functions (both in Tunisia and abroad); in addition it must approve all new projects (public as well as private). It also follows up on projects it has approved,and supplies technical assistance to private promoters who request it.

Thus in 1984, API gave its agreement to 1840 industrial projects (560 of them in textiles and clothing), meant to provide some 30 000 new jobs. A few projects are large, but these figures suggest that the vast majority are small, or almost artisanal. Out of that total, only 10 are purely public (and very small scale), 71 are mixed, often with foreign partners, but large: they account for 43% of proposed investment, but only 13% of employment. The bulk (over 95% of projects) are small Tunisian private projects, very few with foreign partners (foreigners are involves in 52 projects in total).

The number of projects going through API, and the attempt at a follow up, imply a vast bureaucracy and major difficulties in reaching a valid assessment. It is thus understandable that the suppression of the 'agreement' is being discussed: it would be replaced by a simple declaration for small projects in well known activities. The need for agreement would be limited to the more important projects, or those involving new technologies (suggestions have even been voiced to disband API, and have its promotion functions taken over by the Development Banks).

The number of small private projects is significant. They are generally of low capital intensity, but supplying a relatively large number of jobs. This helps to explain a policy of withdrawal by the Government: Tunisia does not face a choice of public enterprises or nothing. And in a period of acute stringency of public resources, these initiatives can maintain a significant rate of employment creation.

Their limitations must also be stressed: most of these promoters would not be capable of mobilizing the large resources needed for efficient operation in some branches of industry, nor of managing them. Further, the encouragements and advantages they are offered result in lower tax yields or in subsidies.

In the longer run however,this proliferation of small projects heralds the appearance of an important class of promoters. Even if the life expectation of most of these firms is short, the promoters who succeed will in time become capable of handling larger-scale and more complex organizations.

4. Prices, Domestic and Foreign Trade

Among PIEs, some operate in branches open to competition and have little or no control over their sales prices, either because they sell on export markets, or because they meet effective private competition on the domestic market. This would apply for instance to phosphate mining, and the chemical industry that has been built downstream to manufacture fertilizers and phosphoric acid; to the textile and clothing industries; and to some types of building materials, such as brick works.

Others enjoy what amounts to monopoly positions, with prices fixed on the basis of production costs and protection against imports, either through tariffs or quantitative restrictions. Such cases would include steel, automobile assembly and milk for instance. Losses may nevertheless appear even in such cases, if controlled prices are not adjusted quickly when costs increase (a rise in wages, in the price of imports following currency depreciation, or a decline in demand reducing the use of capacity).

The number of goods for which price changes need prior approval is being reduced under the liberalization policy, and ex post control of enterprise decisions is becoming more general. Purchases by parastatals are subject to a special legislation, with particular controls, which exhibits deep distrust towards their management. The procedures are therefore complex.

Unless exemption has been obtained, a public tender must be offered,with technical specification to be reviewed by the Technical Controller, while the general legal clauses are fixed by decree.

Inside the firm, the Managing Director then appoints a committee to open the bids received. Then another committee reviews the specification of these offers (here the Technical Controller must participate) (Art.19). Finally, a third committee analyses the file and submits a proposal to the Board, which must decide. According to the regulations current in Sept.1986, the Board was free to commit the enterprise only up to 100 000 Dinars (a Dinar was worth at the time $1.2).

For more important contracts, the law provides for a special committee inside the firm, and a departmental commission in each parent Ministry; large contracts go to an interdepartmental commission which meets in the Prime Minister's office. Such bodies have in principle a consultative role (except for international tenders), but a prudent Managing Director does not sign a contract without first obtaining written approval from the commission in the parent Ministry.

Since delays in obtaining approval are subject to considerable variation, firms have to present their demands for imports of raw materials well in advance of their requirements, and this may involve an excessive (and costly) level of inventories.

5. Financial Management

The Government carries out a complex set of operations: it finances feasibility studies and infrastructure requirements; it supplies equity capital to parastatals, lends them money, or grants it outright; it borrows on their behalf in Tunisia (through the issue of Equipment Bonds) and abroad; it levies taxes on them, receives interest and sometimes dividends; finally it grants them subsidies, particularly when it imposes on them uneconomic prices.

It has also established a certain number of Development Banks, that can take over some of these functions.

However it does not always supply parastatals with working capital, which is often insufficient as a result; nor does it usually cover their current losses. Public enterprises then go to the banks, and many of them are heavily in debt: they owe about a third of total commercial credit, and an even higher proportion of medium and long term credits, financing thus investments not covered by their cash flow.

The complexity of Government functions however creates ambiguities. Thus in the recent case of a public enterprise which failed and was placed in receivership, the banks were surprised that the Government refused to guarantee the loans it had received, and that they had to bear the resulting losses.

6. Human Resources Management

The law grants to the Board of Directors sole powers to fix conditions of employment and scale of pay. It is clear of course that the Financial Controller must be consulted, because of financial implications, but his explicit agreement is not required.

In the available sample of public enterprises, average wages per employment in fact show a wide dispersion, from one to two in the same line of activity, for firms of comparable size. Even the changes, which are in principle subject to Government directives (rapid increase in the minimum wage until 1983, wage freeze from mid-83 to mid-86), show some odd figures: thus in some cases, wages per capita increased by more than 10% between 1984 and 85. Trades Union pressures have however been high in Tunisia, and some Boards have buckled under, with or without the approval of the Ministry.

Managing Directors are appointed (and their salaries fixed) by the parent Ministry.They fall in roughly 3 groups: . senior managers from within the firm, who owe their promotion to their competence and experience; . younger men, often brilliant, full of dash and initiative; . former civil servants near the end of their careers, for whom such an appointment represents a considerable increase in salary, but who tend to retain their earlier administrative behaviour patterns.

Middle management appears to be of variable quality, better in technical fields than in the financial and accounting areas. It is mostly here that promotions have occurred on a seniority basis, which makes difficult the absorption of new ideas and techniques.

Despite the legal responsibility of the Board, it is in fact the Managing Director who decides on promotion and appointments, sometimes helped by a management committee. For senior appointments, he will seek ratification by his Board.

It is also on the Managing Director that local authorities bring pressures to bear to hire additional staff (particularly in areas of high unemployment). Public enterprises are still often viewed as a means of achieving full employment.

Talk about overstaffing in the parastatals is general, even at the highest level of Government. In the sample available, it appears that some firms recently carried out significant reductions. The majority of loss-making firms appear on the other hand to have increased their personnel between 1982 and 85. This suggests that social considerations may still over-ride financial constraints. Increased Government pressure is however likely to change these priorities.

7. Relations between the State and the PIEs

The legal texts presented above on PIE organization do not of course describe the actual working of the system.

In the first place, the legislation is recent (even if the institution of Financial and Technical Controllers has been there for a long time), and well established patterns of behaviour do not change overnight. However, the number of firms subject to direct control has been sharply decreased, as mentioned above, and this may improve its effectiveness. Also, legally defined delays for submitting accounts provide an instrument for pressure on management (parastatals were mentioned in Sept.1986, some quite large, whose balance sheets for 1984, and sometimes 1983, had not yet been drawn up; and the quality of the figures is sometimes questionable).

In the Ministry of Industry, the following view were expressed:

1° Control was not effective until 1985: there were too few competent civil servants in relation to the number of cases to be treated. Control was therefore somewhat haphazard: there might be several meetings a week with a Managing Director around a given file, while others were hardly looked at. After the 1985 law was enacted, procedures were set up, and control is beginning to work as it should.

2° Many parastatals, however, are not equipped to comply with the law: their financial and accounting system is not capable of it. A service in the Ministry has requested from PIEs a curriculum vitae of their chief accountants and heads of finance, to help determine the most urgent cases where replacement is needed.

3° Some of the Technical and Financial Controllers do their jobs, and visit regularly the firms to which they are assigned. Many others however, are civil servants with their own jobs, who do not find the time to attend Board meetings, far less to pursue the on-the-spot enquiries the law expects from them.

4° On the other hand, the regulations which apply to public purchases are effectively applied. Their first aim however is to prevent corrupt practices, but perhaps also to dispel the ingrained distrust which surrounds the operations of parastatals.

On the whole, PIEs appear to be subjected to a multitude of controls, none of them effective in improving management. In the past, previsional budgets were often highly approximate, based on doubtful assumptions and uncertain figures, no guide therefore for measuring performance. Small wonder there was little follow up. Rare also were the cases where effective cost accounting was available in time to provide a useful tool for management.

Of course, there exists a variety of situations: some firms which enjoy the reputation of being efficient and balance their accounts, are subject to no interference in their management. Indeed, a blind eye will be turned on minor infractions to regulations. Loss making PIEs on the other hand have their Managing Director in and out of the Ministry all the time.

Overall impressions on the working of Government control over parastatals may be summarized as follows:

1° The civil service has no experience of enterprise management. Even with the best will in the world, it is not equipped to analyse its problems and suggest solutions. Nor is it trained to make rapid decisions, which is often required in business where the unexpected keeps happening; or even to make decisions at all when unpleasant consequences will ensue, whatever the course chosen.

Therefore, management should inform the administration, draw its attention to foreseeable problems and difficulties, but should take its responsibilities and decisions, without awaiting formal authorization or approval. The weight of the system tends however to generate the opposite behaviour. A majority of managers, mostly the former civil servants, refuse to go out on a limb, and want explicit backing for difficult decisions. This can create lengthy delays and make management ineffective.

2° There exists an atmosphere of suspicion (which is apparent even in the legislation) in regards to public enterprises. Their management is far better paid than in the administration, and they enjoy additional fringe benefits. This can make the relations between controller and controlled more difficult, and may lead to certain abuses, as when a civil servant uses his power to be placed on the pay-roll of a parastatal.

3° The solution of urgent problems (for instance a technical break-down that requires the immediate importation of replacement machinery) often requires political intervention, to speed up normally slow authorization procedures. Personal relations become of paramount importance when cutting through the red tape is needed.

8. Evaluation of Performance

Financial results of PIEs are not very meaningful and must be interpreted in the light of the firm's situation. As was pointed out in the discussion of pricing, some enjoy heavy protection, others may be penalized by delayed adjustments of prices to costs, while others still depend on the vagaries of international markets. They nevertheless provide the yardstick which the Government applies in its policy decisions. They also determine the financial position of the firm and therefore its relations to the control authorities. It may therefore be interesting to present the data available for a group of 56 PIEs, which includes all industrial concerns already in operation but excludes parastatals engaged primarily in studies or promotion. The data (supplied by the Ministry of Industry) cover, for the years 1982 to 85, turnover, value added, investment, employment, the wage bill, gross and net operating results. This group of firms accounts for a large share of total value added of mining (outside oil) and heavy industry, but a much lower proportions (7 to 13%) for light industries, where the private sector is dominant.

Taken as a group, PIEs have shown heavy losses over the last few years. Three factors help to account for these negative results:

- PIEs are generally more capital intensive than other firms in their branch, and their debt load is often heavy. Thus positive operating results can be turned into net losses through depreciation and financial charges.
- The share of value added in turnover has declined in significant cases, owing to a deterioration of internal terms of trade (prices rising less for output than for inputs).
- The share of the wage bill in value added has increased, both because of rapidly rising wages from 1981 to 83, and because of a widespread decline in value added in 1985.

For the group as a whole, net losses have varied as follows, expressed as a proportion of value added:

	1982	1983	1984	1985
% of V.A.:	22%	30%	25%	45%

The sharp deterioration of the situation in 1985 is almost exclusively imputable to the chemical industry: the fall in phosphate prices resulted in operating losses of such magnitude that value added almost fell to zero. While many other firms succeeded in improving their performance, this swing overshadowed everything else.

These global results no doubt account for the Government's negative attitude to parastatals. Losses are however highly concentrated: in 1983 and 1984 nearly half of PIEs in the sample balanced their accounts. In addition there are clear cases of planning errors that would result in losses even for well managed firms.

Chapter VIII

ZAIRE

1. Macroeconomic evolution

After a fairly sustained growth up until 1974, the economy of Zaïre has entered into a prolonged period of recession. Notwithstanding a slight recovery since 1982, the GDP of 1985 attained only 94% of its 1974 value.

The manufacturing sector is the one which, after the construction sector, has felt most heavily the weight of the recession. At constant prices, its value added in 1985 was 40% below its 1974 level. This situation exists for a series of largely interdependent reasons.

The external terms of trade collapsed in the recession of 1975 and never regained their earlier level. Sales of crude petroleum which began in 1981 have only partially offset the depressing influence of the purchasing power of the traditional exports and especially of copper, the main export of Zaïre.

The constraint thus imposed by the balance of payments has weighed heavily on industry whose activity depends to a large extent on the possibility of importing, both for its raw materials and for the maintenance and renewal of its equipment. This problem has directly affected the production capacity of numerous sectors.

Also the difficulties in servicing foreign debt have more and more reduced access to foreign loans and to capital imports in general. Over a number of years net financial flows have reversed direction. Aid barely covers the interest payments due and, taking into account the amortization of debt, the net flow of capital is negative. The surplus of goods and non-factor services does not permit an increase in the capacity for imports.

The chronic deficit in public finances has equally brought on grave consequences. The difficulties of payment of the Treasury have aggravated the cash situation of several public enterprises and, above all, accentuate the degradation of the infrastructure. The latter is invoked everywhere as a major cause of difficulty in obtaining supplies and marketing production. Thus, the investments financed by the Budget have fallen in 1984 to 20% of their 1978 level and nearly 90% of investments by Administrations depended upon specific external financing.

Difficulties in obtaining supplies and excess domestic demand have nurtured a rapid rate of inflation: an average rhythm of inflation of 55% per annum from 1975 to 1984. Under these conditions, price controls have often brought on massive distortions. In particular, the production of agricultural raw materials has collapsed and an entire sector of transformation industries suffers the consequences.

Finally, real wages have declined dramatically particularly in public administration: in 1984, they are situated at 16% of their 1975 purchasing power. The situation is less dramatic in the private sector where some of the ground lost earlier has been recovered since 1980 and, in 1984, wages have reached 75% of their 1975 level. It follows that it has become impossible for the lower grades of the civil services to live and feed their family with their salary. Thus, either they make only episodic appearances at their office in order to pursue parallel activities or else they find within the exercise of their functions other sources of income. The result of this situation is a disorganization of public services and an increase in the costs of every procedure or authorization to be obtained from the administration. Within managerial staff a shifting towards remunerations in kind has taken place[1].

As far as economic policy is concerned, a far-reaching change took place in 1983 following agreements with the International Monetary Fund and the World Bank. A policy of austerity and of stabilization aims at reducing macroeconomic imbalances. A liberalization of the majority of prices should reduce existing distortions and beneficial effects have already been felt in marketed agriculture in 1984. At the external level, an important devaluation of the zaïre and the adoption of a floating exchange rate have improved the situation for exporting enterprises[2]

Without a doubt the devaluation would not have had too serious an inflationary effect had it been accompanied by an increase in the availability of goods on the market. Unfortunately, the liberalization of the exchange rate regime and the efforts by the Government to honour its external obligations have brought on outflows of capital which have not permitted an appreciable improvement in supplies.

The investiture speech of the President of the Republic in December 1984 specified the broad options in matters of economic policy: Zaïre wishes to construct a market economy and the State desires to dissociate itself from production activities which will be left to private initiative.

1 The two items "supplies" and "overheads" of the public accounts represented 33.7% of remunerations in 1978 and almost the double in 1984.

2 One dollar was worth 1/2 a zaïre up until 1976. It passed from 6 to 28 zaïre between August and October 1983. In June 1987, the exchange rate was 154 per dollar.

Thus, all the means at the disposal of the State will be devoted to the planning and the rehabilitation of basic infrastructure.

2. Structure and organization of PIEs

All public enterprises depend on the Portfolio Ministry. In the course of successive reorganizations of the Executive Council, Portfolio either constituted an independent Ministry or was attached to Finance which is the present situation. As a consequence, there has never been any continuity in its administration.

At the end of 1985, the portfolio was composed of 134 enterprises, 51 which were purely public and 83 of a mixed economy kind (majority or minority participation by the State). This number includes however a certain quantity of "parastatals" or public services which are not enterprises as for example the Customs Office, the Office of Administration of the Public Debt, Social Security, Road Transport Authority, or the National Institute for Statistics.

One portion of this portfolio is of very old origin, another part originates from measures termed "zaïrisation" of the economy[1]. Finally, there exists a third group of enterprises, the result of public initiatives, particularly in the industrial domain.

For industry, 10 enterprises are almost purely public (80 to 100% ownership), 5 in mining and 5 in manufacturing, and another 19 are mixed (20 to 60%), 5 in mining and 11 in manufacturing.

A remarkable documentation is available at the UNIDO mission in Kinshasa concerning public industrial initiatives. The subsequent discussion will draw both on these files and on the case studies that were made of two older firms, the large mining concerns, Gecamines and MIBA. Some conclusions will however be presented first based on the history of the new ventures.

1. In all of the cases studied, the foreign partner has not been chosen on the basis of competitive tenders. In general, an intermediary (or a consulting group) has put the Zaïrian authorities in contact with a foreign firm supplying equipment. The absence of technical competence on the

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[1] In 1973-74, the vast majority of foreign enterprises were expropriated in order to be put into the hands of the Zaïrian private sector, but, for a few which entered the portfolio. In 1978, these measures were reversed: certain enterprises were, all or in part, put back into the hands of their original owners. Further the Zaïrian owners were made to pay the value of the enterprise. Portfolio meanwhile conserved the vast majority of those it had acquired

part of Zaïrians has often led to the acceptance of tenders that were much too high, too large in size and inappropriate in technology.

2. The feasibility studies of supplies, costs and markets have often been insufficient or biased either to satisfy a desire on the part of the Government for inappropriate locations, or to justify the proposals of the sellers concerning the equipment to be acquired.

3. The delivery of turnkey factories does not always include an adequate volume of spare parts. In each case rapid wear during the starting period provoked major difficulties. Despite contracts for technical assistance (in general, correctly executed) the equipment proved to be too complex and too fragile given the level of training of the personnel and the conditions of operation. Repair and maintenance facilities have never been capable of making up for these handicaps.

4. The financing mechanisms have each time been insufficient, even at the limit, ridiculous. The financial difficulties of the Government has resulted in the enterprises' being systematically under capitalized. A first consequence of this has been that the foreign partner had hardly any reason to be interested in the proper working of the enterprise: even in cases where he possessed 50% of the capital, this represented only a very small proportion of the value of the equipment to be delivered and was small even in relation to the profit on the sale. The other consequence of the weak financial structure is that the enterprise found itself anaemic from the outset and started out with negative working capital which brought on financial debts in zaïres on top of the cost of suppliers credits in foreign currency.

5. The enterprises lacked effective support from public authorities, in matters of prices, external protection, preference for public tenders, or in foreign exchange allocations for the renewal of equipment. The main action of the Government seems to have been to take upon itself and to consolidate the debts of the enterprises. Nevertheless, in the absence of improvement in management and in operating conditions losses went on accumulating.

Three important remarks must be added:

1. The weaknesses which have been described above are not limited to public initiatives but are often also to be found in private Zaïrian endeavours. The most important of them, the oil processing complex at Gemena, may be quoted as an example. The location was poor (little local production of palm kernels and nuts), transport infrastructure deficient, the financial set-up weak, management inadequate. The foreign partner quickly withdrew, the State paid the foreign debt but retained only its 20% share of

equity. At last news, only the soap plant was working on the basis of purchased oils.

2. Certain foreign partners have demonstrated a behaviour very different from that described above. A good example is that of the textile factory of Kisangani (Sotexki): a particularly dynamic management and effective support from the Swiss group concerned enabled the enterprise to surmount difficulties linked to supplies, the local cotton supply being insufficient, coupled with the remoteness of markets; In 1985 Sotexki paid dividends of 3 million zaïres to Portfolio for its 40% share in equity.

3. As indicated earlier, the difficulties of the enterprises have led to a reaction on the part of the Government. Certain management contracts have been concluded with the private sector for some public enterprises, above all in the domain of agriculture, but results have often been disappointing with, in many cases, the management not respecting their commitments to the State. On the other hand, 38 small public enterprises have been sold (for a total amount of some $3 million). Here also the local purchasers have not always respected their commitments and purchases have not always been paid for.

3. Investment Decisions

All important investment projects must in principle be submitted to an Investment Commission on which sit the various departments concerned. This commission carries out its own study and sometimes calls upon a consultant for the purpose. It may approve, call for modifications or reject a project. Public firms must in principle abide by its decisions. For private projects, the approval of the Commission is necessary to obtain the fiscal advantages provided for in the investment code.

The Commission has on occasion done useful work, in demanding changes in ill-conceived proposals. It has more often proved weak in the presence of various pressures. One classic case was the acceptance, at a few months interval, of two major cement projects (one private and one public) to operate from the same limestone bed: either would have provided ample capacity to meet expected demand and the public plant has since closed down. The summary given above on public projects shows that the Commission has on the whole proved a weak barrier against inadequate planning.

Further, the Commission appears often to be by-passed by firms powerful enough to do so. Thus when MIBA (the major diamond extracting and processing firm) wished to build a large hydro-electric power station to supply both its needs and those of the surrounding area, it arranged the financing directly with its foreign minority shareholder and never went to the Commission at all. It nevertheless obtained directly the benefits from the investment code.

Much the same applies to Gecamines, the main producer of copper and cobalt and supplier of foreign exchange. Here the preparation of the investment plans is essentially an internal process: each department (the several quarries and mines, processing and manufacturing plants) submits its requirements to an appraisal committee. Because of the checkered history of the company, (the raid on Kolwezi in 1978 disrupted production, an put off for a long period the commissioning of new plant, even half-completed), equipment is somewhat out of date and the management will accept only those projects which promise a pay-back period of three years or an internal rate of return of over 20%.

The decline in the price of copper after 1974 implies that such investment plans can no longer be financed through the company's cash flow. Large-scale loans must be negotiated with the World Bank among others. It is in fact the Bank that has queried the priorities of Gecamines plans and insisted that such projects get a first airing at the Ministry of Planning and that the national dimension be taken into account. It is indeed not obvious that a large share of total resources available for investment should be devoted to an industry which experiences decreasing returns

4. Prices and foreign trade

The regime of price fixation has undergone considerable liberalization. Goods and services with scheduled prices, which can be modified only after prior authorization by the Ministry, have been reduced in numbers and in most cases PIEs are now allowed to adjust sales prices in relation to cost changes, subject only to review to ensure there are no abuses.

Such a development is of course almost unavoidable where the rate of inflation exceeds 50% per annum. Nevertheless, the public enterprises which supply basic services, at still controlled prices, face a desperate cash flow situation owing to administrative delays in granting increase authorizations. The problem is compounded where the foreign debt is significant (suppliers' credit for imported equipment) since the external depreciation of the currency is on the whole more rapid than the inflation of domestic costs.

The availability of foreign exchange remains a main constraint on capacity utilization in industry. Formerly, import licences were granted by an inter-ministerial Committee and the Central Bank then supplied the corresponding foreign exchange. The system broke down then the licences regularly exceeded the availabilities with the Central Bank.

No satisfactory method of rationing has since evolved. Some priority is given to the service of the large foreign debt, and pressure is always exercised on the limited remaining supply for the importation of consumer goods: their scarcity on the local markets imply that large profits can be made from any allocation of foreign currency. As a result, industry experiences considerable difficulty in obtaining current inputs and spare parts.

The exporting sectors enjoy in this respect a privileged situation: they are allowed to retain for their own use a share of the foreign exchange they earn. Prices of courses depend on foreign markets. For Gecamines, marketing operations were formerly conducted by an independent company. It was however disbanded when the World Bank discovered that part of the export proceeds were never repatriated.

5. Accounting and Finance

Accounting constitutes an area of weakness in the management of PIEs. A national accounting plan has been decided upon and PIEs are supposed to follow its definitions. In practice however numerous cases have been quoted where the staff is incapable of applying the concepts correctly[1]. There is however nothing inevitable about this weakness, and the example of the two companies, Gecamines and Miba, as well as some others in the public sector, shows that staff can be found or trained to supply the fast and accurate flow of accounting data which management requires. In fact, a UNIDO project has been set up to supply technical assistance to the accounting staff and teach them how to handle this national plan.

It nevertheless remains true that under conditions of rapid inflation, the previsional budgets, which are required by the control authorities, even if they were seriously prepared, would soon lose their significance an become useless for purposes of evaluation.

The typical under-capitalization of PIEs has already been alluded to. The State has in most cases taken over the burden of their external debt when they were no longer able to service it, but without using the occasion for effective restructuring. Many mixed enterprises have thus become

[1] To quote an example, the UNIDO mission estimated that, out of an entry of 2 thousand millions zaïres for claims on the asset side of the balance sheet of the Electricity Board, 1.2 thousand millions arose from errors or false billings.

almost completely State owned, through such increases in issued capital. Losses however continued to accumulate since there was no change in operating conditions.

The situation is of course completely different for the traditional mining concerns which bring in an important contribution to the budget. They are managed on the same lines as private firms, with the same attention to costs and returns, and they enjoy a substantial measure of autonomy (with exception that will be noted later). They do however carry heavy social and educational externalities. Gecamines runs schools and hospitals (it pays 1500 teachers and 1700 medical personnel, making up together nearly 10% of its staff and more than 10% of its pay-roll) and MIBA does the same with of course smaller numbers but comparable proportions. Such facilities are available not only to the families of employees but to the whole local population. This in effect is a tradition inherited from the days when both were private concerns. They were large enough to internalize a high proportion of the externalities they supplied and were the first beneficiaries of a well trained, well cared for and contented labour force.

6. Human Resources Management

The administration of public enterprises is in principle entrusted to a Managing Director controlled by a Board of Directors. For current decisions, the managing director is assisted by an executive board and a trade union delegate elected by the personnel. The managing director and the administrators are appointed by the President.

The administration of personnel and the appointment or promotion of staff comes, in principle, from the Board of Directors upon the advice of the managing director. In fact, the board meets only quarterly and, since there is a lot of absenteeism, the decisions are more often taken by the managing director alone or else by the executive board. Nonetheless, at various levels there are "pressing recommendations" which cannot be ignored. The managing director plays a determining role in all this and the degree of supervision depends upon his personality, his personal relationships with civil servants and with the Minister and, in the last analysis, upon his political weight. In many instances, the managing directors are more stable than the Ministers and their direct appointment by the President's Office can sometimes lend them considerable weight.

Practice is occasionally different: the Gecamines had in 1986 no Board of Directors and the holding company, which had been recently set up to supervise all the activities of the group, barely had a skeleton staff, with purely financial expertise.

Of course, Gecamines tends to be a law unto itself: its size (some 36 000 employees), its weight as the first source of revenue and foreign exchange, and its geographical distance from the capital. Even at the upper executive level, in contact with the authorities (and, thus, sometimes in conflict with it), the technical character of the enterprise is respected: the appointments emanating from the Presidency have generally been given to those who have made their career in the enterprise from the capital makes for the fact that personnel management does not suffer from outside pressures.

With respect to the labour force, the paternalism which was mentioned above seems to pay off. The personnel of Gecamines testify to a striking "esprit de corps"[1] The discipline at work seems remarkable for Zaïre. Employment is stable: one can only be dismissed for theft or one of 3 cases of grave negligence. The organization is vast enough for someone to be assigned to another post if he is not happy with the present one.

Professional training is organized by the enterprise and controlled by examinations (nearly 14 000 per annum), success in which gives a right to promotion.

The remunerations are fixed by the enterprise and a trade union delegation. Their evolution follows the directives of the Government: the salaried employees are aware of being among the privileged. There exists a certain excess of personnel: in three years personnel was reduced by 8% and the staff by 10% through natural attrition and limits on recruitment.

The enterprise sends its recruiting agents to the universities of the country in order to seek worthwhile candidates but it continues to hire some foreign specialists. It has also managed to conserve expatriates, even at the level of supervisory staff, when their performance is satisfactory. From 1978 to 1986, the number of expatriates has diminished by nearly half (from 1270 to 680). Replacements occurred progressively with free departures and internal promotions.

Other cases are less happy and some PIEs complain of pressures for unwarranted appointments as well as lack of discipline and the frequency of thefts. As an extreme case, 10% of the MIBA labour force is engaged in what is in effect police work, and with limited success partly because of the lack of cooperation from local authorities. Diamonds of course offer the maximum temptation.

1 An interlocutor once said "I was born in their maternity ward, educated in their school, am housed by them, they feed me and they pay me" (a phenomenon of the Japanese type).

7. Relations of PIEs with the Control Authorities

Public enterprises all depend on the Portfolio (Ministry or Service), but this control is shared with the competent technical Ministry. The technical Ministry covers supplies and markets, wages and salaries, current purchases and sales and the annual report must be addressed to it. The Portfolio Department controls purchases and sales of fixed assets, financial operations and borrowing, the previsional budget, reports on its execution, the accounting plan and the annual accounts.

The Portfolio thus covers essentially assets, accounting and finance, while the technical Ministries supervise current management. In fact, the same report is sent to both authorities. The earlier discussion of accounting suggests that the practice can be very different from the law, and the services of the Portfolio lack any effective power to enforce its application.

Efforts have been made to improve the situation. Thus in 1985, the Portfolio has proposed to public firms "performance contracts". Despite the goodwill of many Managing Directors, the first results are no entirely convincing. On the one hand, the goals of the firms are not always clearly defined while, on the other hand, rapidly changing conditions, the rate of inflation in particular, make illusory any forecast of income and expenditure. Management instruments should however improve considerably as more effective accounting is gradually introduced.

Public firms subsidized by the State also depend on the Ministry of Finance and must submit accounts to it (based however on a set of definitions different from the national plan). Procedures regarding investment have already been described.

In the relations with the Government, the main problems arise in the field of taxation. Indirect taxes are levied on export values (with a surtax when prices are high) as well as the standard profits tax. Both forms create problems. In periods of low export prices, indirect taxation generates losses for the firms and the Government has on occasion remitted it. When the World Bank became a creditor of Gecamines, through financing its investment plan, it obtained from the Government a revision of the system where export duties, at a much lower rate, are now viewed as an advance on the 50% profits tax (not however recoverable if they exceed the amount of that tax).

The problem with direct taxation arises from the rapid rate of inflation: the level of profits, and therefore of taxes depends on depreciation allowances, which in turn depends on the rate of revaluation of assets authorized by the fiscal authorities. The Government tends to give priority to the immediate requirements of the Treasury over the long-term maintenance of the viability of its PIEs. Thus in 1983, the accounts of Gecamines show substantial losses (on the definition they prudentially use), while they were required to pay large taxes on net profits.

The same attitude prevails in other fields as well. Thus when the price of copper declined in 1986, the Government, anxious to maintain the flow of foreign exchange, demanded from Gecamines that it increase resources devoted to immediate production at the expense of exploration and preparation work.

On the whole, the weaker PIEs complain that they get no adequate support from the supervisory administration: neither in the fields of finance, price policy, protection or preference in public contracts. Control appears equally ineffective: as long as documents come in and can be filed in their regular pigeonholes, no problems arise. On the other hand, the stronger PIEs such as Gecamines and MIBA have their direct lines of communication to the centres of power and tend to by-pass the regular channels.

Thus the question of evaluation of individual performance hardly arise sin the relations with the administrations. As was mentioned above, the Government takes a negative view of the performance of the whole public sector, and uses it to justify a change in policy orientation. Whether better results could have been achieved in the given environment is of course a moot point. For the strong firms, Gecamines and MIBA, the Government is interested first and foremost in the contribution to the budget and the foreign exchange supply. This is the area where tight control is exercised and conflicts of interest arise. Evaluation proper remains an internal exercise with these firms, that is well organized and effective, in that it can lead to promotion or sanctions. As was mentioned above, the only effective discussion of the priorities in the Gecamines investment plan takes place with the World Bank.

Chapter IX

ZAMBIA

1. Macroeconomic Trends

Zambia offers a typical case of the dual economy: an agriculture still largely of the subsistence type (despite a few very large commercial farms); and a modern sector, driven by the mining sector which provides over 95 % of exports, and generates the primary income on which both demand for manufactured products and Government revenue ultimately depends.

Over the last 7 years for which data are available (1977-84), GDP in real terms did not change: the declines in mining (at an annual rate of 2%) and transport being offset by a slow rise in manufacturing (+ 1%) and services. However, the deterioration in the terms of trade implies that, with real output unchanged, real income declined (at an average annual rate of 1.3 %).

In addition, in the balance of payments, property income (mostly interest on the external debt), which was 5.8 % of domestic factor incomes in 77, had risen to 10.6 % by 1984. Thus disposable national income must have fallen in real terms by over 2 % per year over the 77-84 period. Since population has been growing at some 3 % per year, per capita national income has declined in real terms by some 5 % annually.

Part of this decline was offset for the urban population by growing government subsidies. It is therefore not surprising that national net savings have been consistently negative in the last 5 years on record, while in 1982, when the terms of trade were at their lowest, even gross savings were negative. By 1984, real investment had fallen to less than half its 1977 level.

The manufacturing sector has thus been operating under increasingly difficult circumstances: while it still grew in real terms by 22 % from 1977 to 81, its value added declined by 12 % from 1981 to 84. Supply constraints (in particular foreign exchange availability) essentially account for stagnation in 1984 & 85, against a background of repressed inflation. The more recent changes in economic policy have now shifted the constraints to the demand side.

From 1976 until the end of 1982, the value of the kwatcha remained fixed in terms of the SDR (apart from a 9 % devaluation in 1978). Over that period the cost of living more than doubled in Zambia while the price of copper (expressed in kwatchas) increased by 35 %, and its purchasing power in terms of imports declined by nearly 40 %. Since the volume of metal exports was simultaneously declining, the combination of an overvalued currency and declining export proceeds led to an acute shortage of foreign exchange, while many domestic prices remained fixed by the Government at increasingly unrealistic rates.

At the end of 1982, the Kwatcha was devalued by 20 %, then allowed to float downward during 1984 and most of 85, while most domestic prices were gradually decontrolled, and allowed to reach a more economic level; In view of the persisting foreign exchange shortage, a new step was taken in October 1985: the Central Bank started auctioning off the foreign exchange.

No firm has complained of import difficulties while that system was in force. However, since bidding was open to all importers, domestic industry was exposed to foreign competition, subject only to a tariff which had been partially streamlined.

More significantly, the new policy was attended by a sharp drop in urban incomes, since Government subsidies were reduced (they remain only on maize meal, the basic food), and wages were only partly allowed to adjust.

The decline in purchasing power was aggravated by an internal shift in the terms of trade in favour of agriculture. The latter is in line with the new Government policy of seeking from the expansion of agriculture an offset to the decline in income expected from mining operations.

This discontent which resulted in urban populations, led the Government partly to reverse its policies: sales of foreign exchange were abolished, the Kwatcha has been revalued in relation to the dollar (in an attempt to reduce the rate of inflation), the rate of exchange is now fixed by the authorities rather than by the market. Shortage of foreign exchange remains however acute: its allocation is carried out by a committee (whose composition is a secret), while new protection measures have been reintroduced.

2. Structure and Organization of the Parastatal Sector

2.1. General

In the years following independence, most large companies were nationalized or brought under public control through acquisition of a majority interest (60 % of equity in the case of the mines).

Eventually a single holding company, ZIMCO (Zambia Industrial & Mining Corporation) was established in which were vested all Government owned (or partially owned) enterprises. The parastatal sector also includes some Statutory Boards (established by Act of Parliament), the most important of which is the National Agricultural Marketing Board.

ZIMCO has a number of subsidiary companies (with complete or majority ownership), and a few affiliated companies (with minority ownership). Some of these direct subsidiaries in turn are holding companies. Most notable among these are the ZCCM (Mining, with 50 % of Group turnover); and INDECO (industry, with 35 subsidiaries and 26 % of Group turnover). ZIMCO also controls the energy sector (Electricity, coal mining, pipeline, refinery, and a large share of oil products distribution); transport and communication (Railways, Airways, Bus services, Postal & Telephone Services, part of road haulage). It has important interests in trading (wholesale & retail), in finance (banking and insurance), in hotels etc. ZIMCO is thus a mammoth corporation: the value added of its group accounted in 1984 for nearly 33 % of GDP, and provided 134 thousand jobs (despite declines in mining).

The parastatal sector also includes some Statutory Boards (established by Act of Parliament), the most important of which is the National Agricultural Marketing Board.

ZIMCO is resources depend either on the dividends it receives from its subsidiaries, or on funds received from the Government budget (in the form of increased equity in the company). The first source of funds is extremely limited: only the Finance & Energy sectors paid ZIMCO significant dividends and its profits for 1984-85 amounted to less than $2 million at the 1985 exchange rate. On the other hand, ZIMCO received from the Government some $ 240 million in 1984-85 (but only $ 15 million in 1983-84). and Government policy now wishes the parastatal sector to be self-financing. ZIMCO itself does not borrow on any significant scale, although it will on occasion give its guarantee for loans contracted by its subsidiaries.

Thus, except for funds received from the Government, ZIMCO does not contribute significantly to the financing of its subsidiaries. The most important, such as INDECO, the industrial branch, are managed with relative independence. They are mostly dependant on internally generated funds (depreciation provisions) and long-term borrowing. Most of the latter is owed to foreign banks and suppliers, and, owing to the depreciation of the Kwatcha, debt service will involve heavy foreign exchange losses. Depreciation provisions are reckoned at historical costs, and internally generated funds will thus prove increasingly inadequate to finance future investment requirements. These considerations, and Government financial stringency, account for the increased emphasis placed on ZIMCO companies returning at least a book profit.

In spite of this financial weakness, ZIMCO plays an essential role.

- It appoints top management in its direct subsidiaries; and organizes executive training both in Zambia and abroad.

- It decides on reorganizations within the group: in 1984 for instance, it dissolved the Rural Development Corporation, and took over some of its former subsidiaries, while others were assigned to INDECO. On the other hand, a subsidiary of INDECO which was showing growing losses, was taken out of INDECO and attached directly to ZIMCO.

- It will also decide to reorganize subsidiaries and restructure management of its feels it is a condition for efficient operations. (This happened in 1985 in the case of Zambia Agricultural Development).

- It fixes uniform salary and employment terms for the staff of all operating subsidiaries ('ZIMCO conditions of employment').

- It imposes uniform procedures of accounting and reporting. Thus by the end of 1985, it was in a position to publish consolidated accounts of its 113 subsidiary companies (direct and indirect) for the fiscal year ending in March 1985. This flow of information, which represents quite an achievement, is of course essential to overall control.

- Finally ZIMCO issues to its subsidiaries general directives concerning their policy. Thus, in the last few years, increasing emphasis has been placed on the commercial nature of operations, on realistic economic pricing, on management efficiency and on the avoidance of losses.

The significance of these directives and the importance of ZIMCO are underlined by the composition of its governing body: the President of the Republic is himself an active Chairman of the Board.Ministers with economic responsibilities, the Governor of the Central Bank and the Economic Assistant to the President are ex officio members of the board. ZIMCO thus represents the full authority of the President's office and the

Government. With control exercised at the highest political level, it is of course a far more powerful body than the ministries administration.

2.2. Public Industrial Enterprises

INDECO controls some PIEs. Some manufacturing companies however are direct subsidiaries of ZIMCO, a few depend on the Mines or Agricultural Holding Companies; but on the whole, INDECO can be identified with PIEs.

INDECO, a wholly owned subsidiary of ZIMCO, in turn has 35 subsidiaries, operating companies in various lines of manufacturing, with 57 main product lines Many of its companies hold a monopoly position on the domestic market (subject at present to import competition). Others are in competition with the private sector 20 of them are wholly owned by INDECO, 14 include minority interests. In addition INDECO has minority interest in 4 companies

At the end of 1980, registered employment in manufacturing was 21.330 in the parastatal sector and 25.730 in the private sector. By 1984-85, average employment in INDECO group companies had risen to 26.260 persons.

The Board is chaired by the managing Director of ZIMCO; it includes the Managing Director of INDECO, the Economic Assistant to the President, the Governor of the Central Bank, the Permanent Secretary of the Treasury, and representatives of the Party, the Trades Union and the private sector.

General policy guide-lines are set by the Board: in addition to the chairman, 4 members of the Board are also on the Board of ZIMCO. The direct line of policy derives from the Presidents Office and the Government.

The Managing Director is appointed in effect by ZIMCO, as acceptable to the President's office; chosen for his professional competence.

The senior management at INDECO is appointed by consultation between Mr Zulu and the Board. At that level, appointments are cleared with the President's office. Among 9 senior managers, 2 are expatriates.

Three of them, known as Executive Directors share between them the chairmanship of the Boards in all subsidiary companies; and thus each is in a way responsible to INDECO for a group of companies. Of particular importance is also the Financial Director, whole role will be described below.

In the majority of cases, the management of these companies is appointed by INDECO; in a few cases, management contracts are given to the minority shareholders (or even to other firms).

Most companies still have some expatriates among their managers: most often, Europeans on the technical side, and Indians on the financial & accounting side. In these two areas, there still is a shortage of adequately trained Zambian personnel, (qualified, Zambian engineers tend to go to the mines, where there are still many expatriates to be replaced).

Each company has its own Board of directors, chaired by an executive director of INDECO. Minority interests, if any, are represented on the Board. INDECO appoints the other members, generally including some outsiders (either from the private or the parastatal sector) chosen for their competence in the area of operation of the company.

General managers are selected from the pool of INDECO trained managers, after a period of trial (where they appear as 'acting general managers'). This pool is however still inadequate in numbers to provide senior management of high quality to all operating companies.

INDECO also appoints directly the chief accountants to the subsidiaries. In some cases, it appears these officers have their loyalty more to INDECO than to the companies to which they are assigned.

Other members of the management are appointed by the Board, on the recommendation of the General Manager. He will suggest a likely candidate if he has one on his staff. Otherwise, he will go to INDECO Personal manager to ask for help in head hunting: promotion can be from INDECO staff itself, or from another affiliated company.

The pool of middle management available is still inadequate to the needs; expatriates INDECO is of course fully aware of these deficiencies in some of its subsidiaries, and a number of management teams would be dismissed if better replacements were available.

3. Investment Decisions

Replacements as well as new investment financed by the cash flow of a company, are decided by its Board. On the other hand, major new projects, as well as rehabilitation of the equipment, involving outside finance, normally go through INDECO 'Project Appraisal Department. There does not appear to be a hard & fast line as to the size of the investments that requires approval by this department: much depends on the size and financial health of the company from which the project emanates.

There are two other official controls: projects involving foreign borrowing must obtain Central Bank approval; and those involving new lines of manufacturing must go to the Ministry of Commerce and Industry: here a check is made on duplication with existing production; and another on the proportion of imported inputs in proposed sales. Currently the Ministry will accept projects only when this proportion is below 50 %.

The Project Appraisal Department of INDECO has been much criticized. UNIDO proposes to appoint an expert to train its staff for better performance; and the World Bank sends a team twice a year to review all their feasibility and cost-benefit studies: in principle, no project can go forward without the sanction of this Bank team.

Companies prefer however to short-circuit INDECO in this respect when they have the competence and know-how to carry out their own analysis: in these cases it is felt to be a useless and time-wasting additional link in the transmission of information.

An interesting case in point is that of National Milling Company. Of its 4 factories, 2 are genuine antiques, some of the machinery 50 or 60 years old. Maintenance costs are extremely high and milling coefficients (flour to grain ratios) low. A far reaching rehabilitation programme has been under study in INDECO Projects Department for over 4 years, but without any concrete outcome.

Because of the problems of the Company (it has been steadily losing money for 5 years), a highly competent outside team of 3 expatriates was brought in. They succeeded over a period of 18 months in defining the needs, in getting consulting engineers to draw up blueprints, and in arranging the financing; currently, part of the tenders have been placed, some of the contracts have been signed, the first machines are arriving and are being erected.

The details of this story provide an interesting sidelight on the working of the system. Both the Danish and the German Governments offered to the Government of Zambia loans on concessional terms, to be used for purchases in the donor country, and asked for definition of projects. Formally, it was thus a negotiation between Governments. National Milling heard of this through INDECO, and wrote to the Zambian Ministry of Industry in order to put in their application. All subsequent communication continued through these official channels, but with copies addressed directly to the Danish embassy and subsequently also to the Danish consulting engineers, and later to the Danish and German suppliers. In the same way, the Danes sent to National Milling copies of their requests for additional information, which they formally addressed to the

Zambian ministry. Such requests could be answered often before they had been transmitted through channels.

This example of by-passing both INDECO Projects Department and the official bureaucracy may well be unique. It does however point to the unease (felt in other companies as well) regarding the delays attendant on INDECO studies.

4. Pricing Policy

Until 1984 prices were controlled, and fixed on the basis of computed margins over imported raw materials. It was however extremely difficult to obtain permission to raise prices following an increase in costs.

Thus in the case of National Milling, the price of wheat flour was fixed in 1981, and remained at the same level until 1984: meanwhile the landed cost of wheat (Zambia imports about 90 % of its limited consumption) had risen by 53 % (in Kwatchas). Most of this wheat was supplied to the Government as food aid, and sold to National Milling at costs but remained unpaid. Thus the large losses of the Company were financed by running a debt to Government: the company tried in vain to negotiate a transformation of this debt into a subsidy, arguing that the loss arose because of prices imposed by Government.

Since mid 1986, the prices both of wheat & flour are 'market prices': in fact, the price of domestic wheat is negotiated between the farmers' association & National Milling (at a level a little above landed price of imported wheat), and National Milling fixes alone the price of flour. The example can be generalized: since decontrol most prices are set by the sellers, often enjoying monopolistic or oligopolistic positions.

The deep devaluation of the currency (from 1 to 7 Kwatchas per $, from 1983 to 86) has however implied a considerable rise in the prices of goods directly imported or with a substantial import content. Since wages have not followed this increase, a major erosion of urban purchasing power has resulted. By and large, this income effect has resulted in a decline in demand for luxury & imported goods. A case in point is the demand for flour where income and substitution effects have combined to reduce consumption in 1985-86 to less than half its 1982-83 level.

While this is an extreme example, it appears to be fairly generally the case that up to 1985, production was constrained by the availability of imported inputs (both raw materials or intermediate goods, and spare parts for equipment).

After the last devaluation (and the instauration of foreign exchange auctioning), there was a significant decline in purchasing power, and the constraints are now on the side of demand.

5. Financial Management

Accounting procedures are uniform throughout INDECO companies (rules for depreciation, form of the accounts etc). They are all subject to external auditing, although the choice of the auditors is a matter for each board to decide.

INDECO requires each of its subsidiaries to prepare annually a previsional budget; and to submit monthly (weekly, for 'sensitive' companies) a statement covering itemized figures for production sales, costs, cash flow & stocks. INDECO supplies general economic guide-lines for budget preparation: this covers the expected rate of exchange of the Kwatcha against the $, and a forecast of general business conditions. Within that framework, the Companies must forecast their input and output prices, costs, sales, investment & cash flow. This forecast budget is submitted directly to the Finance Division of INDECO, which rejects it if it believes it to be unrealistic either on the optimistic side, or pessimistic in reflecting insufficient effort on the part of management to lower costs (or reduce losses). In case of rejection, consultations ensue between the management and INDECO. The previsional budget is submitted to the company Board only after approval by INDECO Finance Division. This constitutes the main instrument of 'ex ante' control.

The monthly (or weekly) statements then compare actual performance with the budget, both for the period under review and cumulatively since the beginning of the accounting year. (which is also uniform for all INDECO companies). Such statements go both to the company chairman & to INDECO finance division provides the main instrument of 'ex post' control.

A cumulative disparity between budget & outturn will of course lead to consultation between INDECO & the management of the company, as well as discussion at the next Board meeting, regarding measures which the management should take to redress the situation. INDECO does not however command the resources that would be required to help effectively companies that run into trouble.

In the last few years the pressure has been growing for INDECO companies to make a profit, or at least to avoid losses: this objective appears now to take precedence over the goal of providing cheap goods to the public: with price decontrol companies are supposed to set their prices in order to cover their costs. The results are noteworthy:

	83-84	84-85	85-86
Companies showing a profit	23	26	29
Companies showing a loss	13	10	6

Among the remaining loss makers, one saw-mill company and one quarry have outdated or ill fitted machinery; one car assembly plant, with good equipment and maintenance, built 720 vehicles in 1984-85, against a rated capacity of 10 000; and a factory with a capacity to manufacture 150 000 bicycles built less than 24 000.

INDECO reports that only 30 of 57 products manufactured by its subsidiaries registered utilization of over 50 % of installed capacity. The declining trend in many products from 1983 to 85 was mainly due to difficulties on the supply side: inadequate equipment and maintenance in some cases, foreign exchange limitations in most. The trends are however unlikely to improve much in 1986-87, because of the constraints now appearing on the demand side.

In the last 6 years INDECO as a group has shown a small profit before tax on its consolidated statement. Tax however is paid by companies making profits, without offset for those making losses. In addition minority interests are more important in profitable companies. Thus, over the same period 1981 to 86, after tax results attributable to INDECO showed losses 4 times and profits twice (including a large profit in 1985-86).

It must also be mentioned that INDECO companies use a straight line depreciation method, based on historical costs. With rapid inflation in the last 3 years, provisions in the accounts do not of course cover economic capital consumption. However more than half of assets are financed by long term indebtedness. To that extent, there are no paper profits. The proportion of debt denominated in foreign currencies is small; losses on that score resulting from devaluation appear in the statement of results, and partly replace additional depreciation provisions.

6. Personnel Management

Management in all INDECO companies is paid on the basis of 'ZINCO conditions of service'. These provide 3 scales of salaries, depending on the size of the company, as well as the fringe benefits, which are substantial for the upper echelons (houses, cars, etc.). There is no payment by results; indeed the importance of fringe benefits in relation to salary leaves little leeway in that respect.

The pay scales are lower than in the private sector, and some of the best managers leave the INDECO companies. INDECO thus provides a training ground for managers & renders an unpaid service to the community. Losses of qualified personnel are however getting fewer with relative economic stagnation.

Wages are set by collective bargaining with the appropriate Labour Union. Negotiations are however constrained by the wage guide lines issued by Government, which the parastatal sector is of course bound to respect.

There are no Government directives or pressures for hiring. Some companies do find themselves with excess labour (at National Milling, the management estimates required labour at 1200, but they carry more than 1600 men on the pay-roll) but this appears to be the responsibility of earlier management teams. However collective lay-offs are impossible (they would be unacceptable to the Ministry of Labour) so a company finding itself in that situation can remedy it only over time, through a process of natural attrition.

Men can of course be fired for individual misdemeanours, but procedures of appeal are provided for in the collective agreement with the union. Such procedures can eventually reach INDECO level, although, this is unusual.

7. Relations of PIEs with the control authorities

As was indicated above, apart from some general authorizations and policy guide-lines, PIEs do not depend on the Administrations and simply keep them informed of main developments and decisions. Effective control is exercised within the holding company framework, by professional managers. Both ex ante and ex post, its focus is financial, and its central criterion accounting results.

In a rapidly changing environment, (inflation, foreign exchange regime etc), the existing techniques of financial control lose much of their significance. Annual forecasts of sales and costs are subject to a degree of uncertainty that implies they no longer can serve as an effective yardstick to measure management performance. The whole apparatus of financial control becomes inappropriate where the problems facing management are those of adjusting rapidly to changing conditions and of exploiting the new opportunities provided by devaluation (for instance on export markets) and the more ready availability of foreign exchange.

INDECO does not have alternative means of assessment and control: there is no economic evaluation unit to examine potential new markets or to study the situation of companies facing difficulties, and possibles measures of redressement (though of course, both the company chairman and INDECO Finance Division would know a good deal about that, but without the time and opportunity to make a thorough going assessment).

More importantly, INDECO does not have a 'trouble-shooting unit', that could move into a company and overhaul its procedures, identify the trouble spots, and recommend management reorganization.

Finally, the weakness of the Investment Appraisal unit has been mentioned before, as well as the measures taken to remedy it.

All these problems are well recognized, and the World Bank has brought in a team of consultants to appraise the functioning of all INDECO companies, and their capacity to adjust to their new conditions of operations.