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ENHANCING ACCOUNTABILITY IN THE MANAGEMENT OF PUBLIC ENTERPRISES IN AFRICA

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LIST OF ACRONYMS

AAPAM	-	African Association for Public Administration & Management
CAFRAD	-	Centre Africain de Formation et De Recherche Administratives Pour Le Development
IFIs	-	International Financial Institutions
IMF	-	International Monetary Fund
NITEL	-	Nigerian Telecommunications Authority
SAL	-	Structural Adjustment Loan
SAP	-	Structural Adjustment Programme
PHSD	-	Public Administration, Human Resources and Social Development Division (of UNECA)
PE(s)	-	Public Enterprise(s)
UNECA	-	United Nations Economic Commission for Africa

Preface

Africa's public enterprises have been the subject of considerable debate in the last couple of years. However, in the emerging consensus that Africa's public sector organisations should provide the enabling environment for private sector growth it is becoming ever more evident that public enterprises that are not liquidated or privatised and, therefore remain in the public sector, must contribute positively to Africa's economic and social development.

This study examines how this could be done by enhancing the accountability mechanisms of Africa's public enterprises to market and non-market institutions. The latter include not only the executive units of the government but the totality of governance institutions: the legislature, executive and the rule of law as well as to local community organizations and members of the public as citizens and consumers.

We do hope that this study will stimulate fresh insights to the effective management of public enterprises in Africa. It attempts to contribute to the policy debate on this important subject. As with all other publications emanating from this Division, we do welcome comments from readers.

The original draft of this paper was written by Professor Bamidele Olowu who was visiting from Obafemi Awolowo University, Ile - Ife, Nigeria. It has benefitted from discussions within the Division and also from the comments of two Regional Advisers based in the Division: Drs. M.J. Balogun and Asmelash Beyene.

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Introduction and Rationale

Africa's public enterprises (PEs) have been the subject of considerable debate within the last decade and a half. A few of them were created during the colonial period but the majority came afterwards and were designed to promote specific political and socio-economic goals. However, by the 1980s, it was evident that many of these public enterprises had become a big drain on the public purse and constituted one of the key institutions responsible for the fiscal and economic disequilibria that existed in several African countries (Adedeji 1981, Shirley 1983, Nellis 1986).

Proposals for reforming Africa's parastatals have fallen into two broad categories- divestiture and privatisation on the one hand and institutional and managerial reforms in the remaining PEs on the other.

In the early phase of economic reform in African countries in the 1980s, there was considerable enthusiasm on the possibilities of privatisation and divestiture. Over time, it increasingly became evident that the privatisation/ divestiture option had severe limits in less developed countries generally but particularly in Africa. First, PEs were created to carry out a multiplicity of objectives and even though most of them were not financially successful, in some cases, they achieved a number of other goals. Second, certain institutional, economic and political factors were required for the actualization of the PE privatisation option. These included a highly developed competitive private sector, appropriate human and financial infrastructure as well as a supportive public and civil society (Paul 1988, Mkandawire 1994). Most, if not all these conditions, were absent in many African countries. Moreover, to the extent that even the most industrialized economies have public enterprises in areas such as telecommunications, electricity, gas and oil production, railways and airlines, motor industry, steel and shipbuilding in their respective national economies in which the market was very well developed, PEs are likely to remain inevitable in many African countries where the private sector is still at rudimentary stages.

The above assertion is, of course, no excuse for the toleration of loss-making PEs but it helps our understanding in three important respects. First, it helps us to place the slow pace of privatization/divestiture in Africa in spite of strong and sustained pressures from international financial institutions such as the World Bank and the International Monetary Fund in their proper context. Secondly, it calls attention to the need to adopt a composite approach to the reform of PEs in Africa - privatization/ divestiture where PEs are definitely not achieving their objectives and institutional reform where public enterprise is inevitable. Thirdly, it underscores the fact that the institutional reform option deserves more attention than it has received to- date because PEs are inevitable in African conditions and yet they have been so poorly managed- as a part of patronage politics benefitting a few rather than being run as enterprises in the overall public interest.

However, as many African countries are democratising their institutions of governance, and moving from centralized to less-centralized modes of governance, it is felt that this will likely have implications for the management of their PEs.

Study Objectives

PEs in Africa as elsewhere are confronted by four fundamental problems. The first is the multiplicity or ambiguity of their goals and the second is the absence of clear lines of responsibility and control - leading to severe limits on managerial autonomy or alternatively to the absence of appropriate controlling mechanisms. Whereas, these problems are not peculiar to African PEs, the African situation is complicated by two additional fundamental problems: the poor development of the economy and of financial/personnel infrastructure. A final problem is the absence of appropriate institutional mechanisms for making public enterprises accountable to the public and/or to the market. These problems explain the very poor and declining performance of African PEs in contemporary times.

Not surprisingly, earlier studies on the subject have emphasised the need to strengthen accountability of African PEs through the use of market mechanisms or through more effective controls by the executive departments of government (Nellis 1986, Corkery et. al. 1994, Knight 1994, Rasheed et. al. 1994). The impact of these PE reform initiatives have however been limited as earlier noted above and in many cases these reform activities are themselves shrouded in secrecy and have not been transparent, a fact that has contributed to the poor perception of PE reform in the eyes of the public and has led to public cynicism and disenchantment with the reform efforts themselves (World Bank 1994, Olowu 1994).

The study places makes the case for the strengthening of institutional accountability as a strategy for enhancing the performance of African PEs. Institutional accountability has a potential for contributing to improved management of African PEs in two important senses. First, it exposes PEs to surrogates of market forces in non-market situations. Secondly, it facilitates the application of other governance norms such as transparency, rule of law, efficiency, predictability etc. These various dimensions of accountability are crucial but has been neglected in the discussions of how to enhance PE performance in African countries. A search for the possible contributions of institutional accountability to the strengthening of public enterprise performance in African countries is the primary objective of this paper.

Specifically, the paper has the following objectives:

- To review various strategies that are being utilised to improve the performance of African PEs including liquidation or close-outs, full or

partial privatisation, commercialisation, restructuring, etc. and the overall effectiveness of each of these strategies.

- To examine the extent to which public enterprise performance in African countries is linked to lack of or weak accountability. In other words, attempt will be to identify the possibilities and limitations to which enhanced accountability can help to tackle the variety of problems confronting African PEs.

- To suggest additional ways by which accountability can be improved in African PEs with the sole aim of improving their performance and keeping the average citizen better informed and involved in the management of African PEs.

Working Propositions

To the extent that all PEs are confronted with the problem of maintaining the fine balance between autonomy, control and accountability, we offer two propositions at the outset:

First, the nature and quality of governance in the public realm has tremendous implications for the nature and quality of controls from government to which PEs will be exposed. It is thus expected that as the modes of governance in African countries change from one-party and military autocracies to democratic governance models, the manner in which African governments exercise their oversight responsibilities over PEs in African countries is likely to improve in terms of the norms of good governance- efficiency, accountability, rule of law, transparency etc.

Secondly, the absence of accountability is a major problem confronting African PEs. Contrarily, improvement in market and non- accountability mechanisms of PEs in Africa will assist in no mean way in tackling the various environmental, institutional and management problems confronting African PEs.

Project Outline

The paper will focus on the following sub-themes:

I African PEs: Definition, Promise, Performance, Problems and the Relevance of Accountability.

II Current Strategies for Revitalising African PEs.

III Accountability and PE Performance: Empirical Case Studies.

IV Strategies for Improving Accountability and Performance of African PEs.

Methodology

The report will be based primarily on a detailed review of the available literature and other secondary data as it will not be possible to conduct primary field research due to financial limitations. Nevertheless, the project will benefit substantially from the several studies and papers generated from workshops organised by the PHSD on the subject of PE reform within and outside the framework of SAPAM in the last decade. Besides, a number of other agencies such as the World Bank and the African Association for Public Administration and Management (AAPAM) and intellectuals within and outside Africa have written copiously and insightfully on African public enterprises.

I African Public Enterprises: Definitions, their Promise, Performance, Problems: and the Relevance of Accountability

Definition of Public Enterprises

Public enterprises (PEs) are organisations that are dedicated to the promotion of entrepreneurship in the public sector. While entrepreneurship was originally associated with private individuals who are risk- takers and who bring about innovation and change in different sectors of the economy, in societies with a very short tradition of large-scale private enterprise and a deficit of industrial experience, public enterprises were created to fill these voids. With time, these type of enterprises extended not only to the manufacturing sector but to the financial, commercial and even the agricultural sectors.

Public enterprises are essentially organizations which combine 'publicness' with 'enterprise'. They are public in the sense that: a) major decisions are made by non-private agencies on criteria which at times transcend financial returns; b) net returns accrue to the public, not private persons and in most instances, the public or government owns majority or whole equity capital; and-arising from these two considerations-c) the whole enterprise (as well as its personnel) are accountable to the society. However, a PE is an enterprise in the sense that it is expected to operate as any other private enterprise- that is subject to market discipline - i.e. take risks, search for innovations with respect to its product and factor markets and charge prices relative to costs- except where non-enterprise obligations are laid on it. This definition of public enterprise is in agreement with the definition adopted by the United Nations General Assembly Resolution No. 3488(XXX) of December 12 1975 which describes them as: entities producing traded goods and services which the Government and its agencies own and control (including partial ownership if this is sufficient to give effective control).

A public enterprise is thus different form other public agencies which are of an essentially cultural or social nature e.g. research institutes, universities, schools, health or environmental agencies. This distinction is a very important one in view of the tendency in the literature to lump together all public agencies as public enterprises. Furthermore, this hybrid nature of PEs raises the fundamental problem of how to sustain an organisation which straddles both the public and private realms. On the one hand, it is expected to be subject to public control but on the other hand, it is also expected to operate with the autonomy of a private enterprise (Jones 1982, Ramanadaham 1991).

Generally, PEs are usually placed outside the main-stream civil service organs - even though some measure of overall supervision with respect to policy matters are provided by ministries. For this reason they are also referred to as para-state agencies i.e. agencies that are not completely state agencies. In general terms, the more a PE approximates a private sector enterprise the more the amount of autonomy it enjoys. Hence, PEs have tended to be classified into four main types. These are:

- **Departmental Enterprise** which is an enterprise run as a normal department of government with direct responsibility to the Minister. It is essentially operated as a part of the civil service. Examples include the colonial postal services. Several public enterprises began their lives as departmental enterprises.

- **Public Corporations:** This is a body which even though wholly owned by the state (at times also with some non-government funding) is created by a special statute which makes it a body corporate. It operates outside of the mainline civil service and its regulations are different from those of the civil service. However, its enabling statute places it under the general direction of the Minister for policy issues only.

- **State Companies:** These are organisations established under the company laws like other private enterprises, the only difference being the fact that they are wholly or partially owned by the state. It is in particular a favoured form for joint ventures between public and private concerns. Theoretically, state companies are expected to have greater autonomy than the statutory corporation.

- **Operating Contracts**: Under this arrangement, government enters into a contract with a private company to carry out business on its behalf- hotels, airlines, railways, customs etc are operated in many developing countries in this way by private agencies (foreign or domestic) on behalf of governments.

Rationale for PEs

Public enterprises exist in all economies but the reasons for their existence tend to differ between developed and underdeveloped countries. Table 1 gives a list of 26 objectives which PEs are expected to promote in developing countries. However, these can be summed up under seven major justifications: history, economic growth, equity, ideology, mobilization of surplus, and investment outlet.

Historically, many PEs predated the existence of African countries as independent nation-states. As noted earlier, colonial governments created a number of parastatals- agricultural commodity boards, marketing boards, development corporations, development banks, rail and air corporations which played important roles in laying the infrastructure for economic and social development in several African countries. At independence, these institutions became part of a whole strategy of economic development.

The economic growth arguments for PEs hinge on the fact that investment and growth could not be left to market forces because the latter were too weak or non-existent in some countries. The strategy of development adopted - namely economic planning - meant that the governments must create agencies which can move into areas which private sector organizations would not be interested - in: e.g. industries new technologies rather than trading, commerce and light manufacturing activities and. Moreover, given the historical fact that the private sector was generally poorly developed by the colonial masters, PEs were not only developed to fill these voids but also to ensure that nationals were provided the necessary facilities- credit, know-how etc to be able to compete with foreigners (either as expatriates, multinationals or as foreign settlers) who had the historical advantage.

The distributional or equity rationale has several dimensions. The first was the fact that in sectors where the domestic market for a given product was small, enterprises are likely to be monopolies, duopolies or oligopolies. In the absence of the appropriate capacity to control private monopolies effectively, public monopolies were preferable. They could be more easily controlled and the surplus they generate goes to the public rather to private individuals. A second equity argument revolves around the tendency for wealth to be concentrated in the hands of a few persons or families, most likely foreign settlers in Africa's circumstances. It is easy for a few wealthy persons to take advantage of this situation by enjoying monopoly rents, hence the need to create PEs to compete with these private entrepreneurs and in extreme cases to nationalise or indigenise already existing private enterprises. The desire to indigenise what were referred to as the strategic sectors of African economies - especially in the mining, extractive and utilities sector - was indeed the reason for the sudden increase of PEs in many African countries in the decade following political independence.

Given the prevailing intellectual atmosphere in which capitalism was associated with colonialism and exploitation, several African countries adopted a socialist political ideology which required them to take over the factors of production for the benefit of the society. Even countries that did not adopt a socialist ideology espoused the need for nationalising or indigenising what were referred to as the strategic sectors of their economies. A number of industries were regarded as strategic and should be organised as state monopolies. These included central banking, broadcasting,international airports, iron and steel, shipping, petrochemicals, telecommunications etc. This ideological position led to a spate of takeovers of private enterprises and in one extreme case- Uganda- the owners of these business were deported from the country.

There was also the surplus argument. PEs had a potential to mobilise resources which could be reinvested rather than used for current consumption if they were in private hands. Alternatively, in areas where it would take a long time for profits to accrue, private enterprises (e.g. depressed areas of a country) will not be interested, PEs were most suited in these circumstances. Furthermore, it was reasoned at that time that PEs were capable of generating jobs especially given the penchant of private enterprises to give preference to labour saving technologies which were imported from technologically developed and labour short countries. PEs, by adopting intermediate technology can ensure that the maximum number of Africans were given an opportunity for paid employment, an issue that had become all the more important in view of the large number of graduates being turned out annually by the expanded programmes on education adopted immediately after political independence. The contrary argument advanced by supply-side economists that PEs do not generate surplus but deficits was given a short shrift in many African countries.

Finally, PEs provided outlets for countries which experienced sudden windfalls of revenues from mineral and agricultural exports. The alternatives would be to invest such monies abroad or in private ventures locally, which run contrary to other objectives of the government or create the possibility that such monies may be frozen by hostile governments or stolen by corrupt officials.

There were several other reasons for the existence of PEs - the desire to provide patronage for political supporters and cronies, the insistence by foreign aid providers that their project and funds must be administered outside of the framework of the mainline civil services etc. Moreover, the 1960s and 1970s were a period when government intervention was fashionable throughout the world as the most effective mechanisms for correcting market failures.

As a result of these reasons, PEs grew in leaps and bounds all over African countries. Unfortunately, many African countries have no consistent data on their PEs or their performance. Nevertheless, some statistics are available on a number of countries. An IMF study for 1974-82 shows that African countries in the sample of countries selected had the highest share of PE investments as a proportion of gross fixed capital formation in their countries (32%) whereas the figure for developed countries was 11%, Latin American countries (23%)

and Asia (27%) (Short 1984). A more detailed World Bank study shows that 30 African countries had a total of about 3,000 PEs, the number ranging from 7 for Lesotho to 400 for Tanzania. Also whereas, worldwide, PEs are responsible for about 10% of the gross domestic product, the figure ranged from 7% for Liberia to 40% for Sudan, the average for 12 countries being 18.4%. The study also noted that they account for " over 90% of manufacturing value added in Ethiopia, 80% in Somalia, 50% in Zambia and 40% in Cameroon". They also dominate the capital markets in terms of borrowing and provide a large share of the modern sector employment (Nellis 1986: 4-12).

Performance of African PEs

Unfortunately, these PEs failed to live up to the promise. African PEs grew at a phenomenal rate. But the overwhelming verdict of the available studies and statistics on them, both from international finance agencies such as the IMF and the World Bank, development agencies such as the United Nations agencies, the countries themselves and independent scholars and non-governmental organizations such as AAPAM, CAFRAD, the Commonwealth Secretariat is that African PEs have performed dismally. This is the case whether the focus is on financial or non-financial indicators.

The World Bank is convinced that PEs constitute a drain on public resources. The UNECA in a number of publications also accepts the idea that African PEs have performed poorly. A number of African scholars demonstrate that the failure is not just that of PEs but of state capitalism as a strategy. All of these sentiments are given the fullest expression in the following statement:

> Not only are they regarded as bottomless pits gobbling up scarce national resources but many of them have been accused of being incapable of discharging the services and fulfilling the obligations which were considered vital at the time of their establishment. Moreover, judging by the huge capital investments and recurrent expenses undertaken by these enterprises, they could be held liable partly for the increasing external debt burdens that are slowing down the progress of many countries in Africa today. (Wamalwa 1987:112)

Nevertheless, two cautionary notes are normally used to qualify this global condemnation of African PEs. First, too much reliance must not be placed on financial statistics that simply compare annual profits and losses of these enterprises. This is not only that most of these data are neither too reliable nor comparable but that such data often obscure the fact that profitability is not necessarily a correct reflection of good performance just as loss-making may not indicate poor performance especially when such factors as monopoly rents, inflation, subsidy levels and the combination of economic and non-economic goals are required of PEs. The second cautionary note is that some African PEs have demonstrated a good track record of good overall performance. Unfortunately, in spite of these qualifications the overwhelming evidence of most national reports is very negative. Moreover, the few cases of successful PE operations in virtually every country are only a few bright spots which are the exceptions that magnify the rule of poor overall performance.

With the advantage of hindsight, one may also argue that perhaps African countries put too much faith in PEs as a strategy of development than was necessary given the culture of government operations in the continent.

Problems Confronting African PEs

This then brings us to the central question- why have African PEs performed so dismally. The response to the question usually comes in terms of two major explanations- the external and internal factors.

Among the external factors, four are prominent. These are: unclear and contradictory objectives, excessive political interference in operational decisions, weak and unclear accountability structures and a macro-economic framework of controls on prices, exchange mechanisms, imports, subsidies etc which tend to discourage competition and the attainment of high levels of productivity.

Three internal problems are frequently mentioned. The first is the quality, composition, tenure, role and size of boards of management which are usually appointed by the government. Secondly, there are serious personnel management problems. Many countries could not allow PEs to pursue merit in the selection of their personnel and usually force them to dilute this with political criteria such as ethnic balancing etc. Moreover, PEs are not allowed to adopt incentive systems which will enable them to compete with private enterprises. The consideration is often that they should not have remuneration systems which will attract too many employees from the main line civil service. Civil service conditions are imposed in some countries on PEs. Poor pay and poor personnel practices lead to a high turnover of skilled personnel and a tendency for high levels of personnel rotation.

A third internal problem is that of finance. PEs are often poorly capitalised by government and yet are not given the freedom to source own funds internally or externally. Reliance on government grants and subsidies encourages lax accounting and auditing mechanisms. The absence of data on performance or even the total number of PEs in several African countries is one of the symptoms arising from this problem.

Together, the castellation of internal and external problems help to explain the disappointing performance of PEs in Africa. Nevertheless, this conventional manner of simply highlighting the external and internal problems may not tell us much about the relative importance of these problems. While the factors are likely to weigh differently in various countries or enterprises, the literature seems to indicate quite conclusively that the external factors are primary while the internal problems are largely secondary. The combined effect of the external problems, fuelled no doubt by the political economy in which PEs operate, led many African governments to believe that the solution to poor or mediocre performance of PEs was the imposition of more detailed controls - with respect to pricing, personnel, management, finance etc. - all of which led

to further decline. In the process, some of the PEs that were performing well were destroyed in these circumstances. (Grosh 1991, Corkery et. al. 1994). This view is further borne out by studies of successful African PEs. (See for instance Rasheed et. al. 1995).

This paper attempts to show that one of the external factors noted above- weak accountability- is the most serious problem confronting African PEs, especially since the resolution of this problem holds good prospects for tackling other problems and thus turn African PEs around. It is unfortunate that many countries in Africa have tended to equate accountability of PEs to the public with the imposition of controls by the executive. We shall examine next what we mean by accountability and why it is considered as central to improved performance of PEs in Africa.

What is Accountability?

Accountability is one of five norms of good governance in a democratic regime. The other norms include: efficiency, transparency, predictability or rule of law and legitimacy or pluralism. Each of these norms are closely related to the other and are mutually reinforcing (See Table 2).

Accountability involves the development of objective standards to enable the ultimate owners of an organization assess the performance of the duties that have been allocated to individuals and units within the organization. It thus has three important components: a clear definition of responsibility of each actor or organ. Second, reporting mechanisms and third, a system of review, rewards and sanctions. Accountability flows in different directions- upwards/downwards between subordinates and their superiors and laterally among professional peers. But it can also involve external bodies. In contrast, control is usually exercised unidirectionally between a principal (government departments) and an agent (the PE).

For our purposes it is critical to make a distinction between accountability exercised through market mechanisms and accountability as exercised through public institutions.

For private sector enterprises, accountability is normally exercised through competition both for factor and product markets. All enterprises struggle hard to capture a part of the market and all activities are subject to this overriding consideration. The search for the cheapest and most qualitative factor markets as well as a substantial share of the product market lead to quality control, innovation, product differentiation and customer care and sensitivity. In popular parlance, the market mechanism ensures that the consumer is king. Other mechanisms that ensure that private enterprises are consumer -sensitive are the price mechanism and the discipline imposed by financial markets. The ability of private enterprise to make profit under these stringent conditions is the

basis for the delineation of responsibility between the owners of the business (shareholders) and the business managers.

Conditions are different in the public sector as a result of several factors: monopoly power, absence of shareholders, conflicting objectives and cheap credit. Other complicating factors include the fact that public officials have a sense of being accountable to the public in an abstract sense but not to the consumers of their services. Furthermore, the public may lack the information, ability, political power or incentives to demand for efficient services. Alternatively, special interest groups may have captured the producers of a particular service. Finally, measuring public services in terms of benefits derived by the public is often difficult (Paul 1991).

Accountability structures in the public service serve as surrogates for market forces in non-market conditions. It helps to reflect he preferences of public sector citizens and consumers in the strongest form possible within the framework of the public realm. One author refers to accountability in the public sector as society's quality control device (Balogun 1993:119). For this reason, it is often said that where there is no accountability, the public administration system runs amuck (Stren 1989, Caiden 1989).

Three broad types of accountability are recognised within the public sector: personal or individual; internal and external accountability.

Individual accountability refers to the individual's sense of personal responsibility to the organization in which he/she works. Usually this is determined by personal morality which is itself a reflection of a person's religious, family or educational backgrounds and training received relating to the organization. This is often reinforced by professional ethics. However, in most modern societies, premium is placed on mechanisms for enforcing internal and external forms of accountability.

Among the most important internal accountability mechanisms are: managerial/administrative mechanisms (mission statements, job descriptions, periodic performance reviews, monitoring, management information systems, management by objectives, plan implementation units, code of conduct etc) - all of which are designed to ensure that each individual or unit of the organization performs according to some predetermined standards. Other internal mechanisms include budgetary and fiscal instruments (financial and material procurement procedures, budgets, internal audit etc)- to ensure that the organization's resources are used to attain the organization's objectives as efficiently as possible.

External Accountability includes accountability to the electorate through periodic elections/referenda, or to the public's representatives (the legislature or to Chief Executives of Executive Departments or ministries) or to public interest institutions such as Ombudsmen, consumer protection agencies etc.

As the public sector expanded in the post war period in the industrialised countries of the world, additional mechanisms were developed to strengthen and enforce accountable performance of public sector institutions. Indeed, even privatisation and other divestiture strategies were a part of these new mechanisms for enhancing accountable public sector performance (Jabbra & Dwivedi 1989). In contrast in Africa, the preoccupation - until the recent moves towards democratization - was to enhance the executive capacity of the state. The process and its results have been given graphic descriptions in several publications on the subject (see for instance Lungu 1983, Stren 1989, Wunsch & Olowu 1990, Olowu 1992, Rasheed & Olowu 1993).

As institutions that straddle the public and private sectors, PEs are expected to utilise a combination of market and non-market accountability devices. They are given substantial autonomy to enable them compete for factor and product markets as any other private enterprise. This enables them to fix their prices in response to supply and demand fluctuations. However, as public sector organs, they are also required to submit their plans and policies and annual reports of their performance to the parliament/ assembly through their supervising ministries for approval to ensure that they pursue the interest of the public. We shall endeavour to show in this paper that Africa's PE sector have suffered from the lack of any sustained system of accountability either to market or to its non-market forms and that this constitutes the major problem confronting these organisations in the continent. There are of course variations between various countries but this is the dominant mode. We examine these issues in greater detail in chapter three. In the next chapter, we undertake a quick review of the major PE reform initiatives on the continent.

II Current Strategies for Revitalising African PEs

Four major types of reform strategies have dominated PE reform profile in Africa in the last several years. Most of these reform initiatives have been taken in active collaboration with international financial institutions. The reform strategies are: first, the reform of the macroeconomic framework to stimulate the economy as a whole; second, divestiture which takes the form of liquidation and privatisation. The third strategy focuses on efforts to financially rehabilitate PEs and finally, the reform of the institutional and managerial framework, mostly through performance contracts. In this section, each of these strategies will be briefly reviewed and critically appraised.

1 Reform of the Macro-Economic Framework

One of the fundamental causes of poor public enterprise performance in Africa is the nature of the macro-economic environment: high tariff regimes, small markets and special protection and privileges for both public and private businesses, poorly developed financial institutions, controlled prices etc. Within such a framework, PEs either operate as monopolies, shielded from competition or rely on perpetual subsidies therefore cutting off any incentives towards raising the quality of services they produce or performance.

Even though attention is often focused in Africa on PE failures, the reality is that private sector organizations have also not been star performers- because of the hostile macro-economic environment with which they are confronted.
A recent review of a global study of 10 countries over a 20 year-period by the Economist magazine (1996) shows quite conclusively that the greater the level of economic freedom enjoyed by a country (measured by free market indices of: low taxes, subsidies, inflationary policies, tariffs, controls on products, product markets and prices etc.), the higher the level of economic growth attainable and the richer its citizens become. Judged by these indices most of the countries in Africa score low on market freedom; their governments, until the most recent times, have not been market-friendly.

Since the 1980s, however, many countries in Africa have embarked upon policies aimed at liberalising their economies. Such liberalisation programmes, often a part of Structural Adjustment Programmes (SAP) or structural adjustment loan (SAL) facilities sponsored by the IMF or the World Bank have as their core activities- price liberalization, trade liberalization and foreign exchange liberalization.

Important as the macro-economic framework is, there is evidence that some of its components require proper sequencing and a governmental system which is capable of effectively policing the market regime. In a surprising research finding on the subject, John Knight (1994: 332) reports that his case studies on

successful and poorly performing PEs in different African countries suggests that market competition 'is neither necessary nor a sufficient condition for good performance'. As we show below, it is possible for PEs to succeed in the absence of market competition, especially if the PE is held accountable for performance by non-market mechanisms.

2 Divestiture

Divestiture is the process by which the state liquidates or transfers its ownership in part or in whole of a PE to another owner. Divestiture today constitutes the most controversial and probably the most famous of the strategies for revitalising African PEs. Virtually every African country has embarked on a programme of divestiture. Divestiture takes any one of the following three forms: Liquidation or the closure of the enterprise altogether; privatisation or the full or partial sale of the enterprise; and partnership arrangements in the form of joint ventures, management contracts etc.

Divestiture programmes have generated a lot of studies and from these plethora of studies we can summarise the most important developments.

First, even though privatisation generated a lot more intellectual and policy debate, many African countries found it much easier to embark upon outright liquidation and closure of selected PEs - especially in the earlier period, around the late 1970s and early 1980s. The reality in most cases is that some of these public enterprises had all but collapsed or stopped functioning before they were declared liquidated- a form of slow death or informal liquidation as against formal liquidation. The former was also much easier politically than the latter or other divestiture options such as privatisation. Data for 1979-84 shows a total of 88 liquidations as against the sale of only 23 assets of companies in 15 sub-saharan African countries. With time, more cases of privatisation were reported. Table 3 shows the situation between 1983 and 1987 in 31 African countries: 78 completed liquidations and 80 complete privatization.

Secondly, more comprehensive and up-to date data on privatisation (1986 - 1992) shows that 5 countries- Guinea-Bissau, Benin, Togo, Senegal and Mali have divested over 40% of their PEs. However, the majority have divested only 10% or less (See Table 4). Some countries such as Kenya have not privatised even one PE after a decade of discussing the option. On the contrary, some countries such as Burundi and Cote D'Ivoire have actually increased the number of their PEs (the latter from 113 in 1977 to 140 in 1990, even though it had privatised 30 PEs).

A third general observation is that most of the privatised PEs are the small/medium scale PEs. The larger ones with the bulk of the assets-airlines, railroads, mining, utilities - all of which are regarded as strategic PEs have not been privatised. Moreover, a recent World Bank report (1994: 105) notes that several of the privatisation reports are fictitious: some PEs that are put up for

sale return to the government's portfolio if negotiations fall through; partial sales of shares are reflected as full 'body count' etc.

Fourthly, with but a few exceptions, privatisation has not increased the level of efficiency or solved fiscal crises. Several factors contribute to this outcome. First, severance benefits were often quite high and had to be paid by government before privatisations could go through. Second, in countries where a vibrant, indigenous private entrepreneurs are yet to develop, a situation where there are few buyers results and there is a buyers' market. Buyers are not interested in loss-making parastatals, only in successful ones. In a number of cases the PEs had to be fattened before they can be sold- often at great expense. The World Bank (1994: 106) notes in the report cited earlier that: 'many privatisations did not lead to greater efficiency because the new comers received favours -tax benefits, duty free imports, tariff protection, and priority access to credit and other scarce inputs- that reduced the social benefits'. Thirdly, some of the transactions were considered scandalous in terms of the conditions of sale to foreign partners (Togo). In a number of cases, these buyers have resold such enterprises for higher profits, to the chagrin of the people. Finally, several transactions in many countries -especially of the private placement variety - lacked transparency and have become prone to corrupt dealings (Ghana, Nigeria, Guinea, Sierra Leone).

A final problem confronting privatisation of African PEs is the fact that there is no public support or strong lobby for the process. The vocal members of the public - the urban working classes, the middleclass - are all beneficiaries from the status quo. Even though private businessmen do support privatization, at the same time they support the special privileges - high tariffs, fixed exchange rates, etc. - which has led to the emergence of PEs in the first instance (Mkandawire 1994). This situation contrasts sharply with the what obtains in developed countries where political parties have adopted privatisation as an article of faith and a major campaign issue. (See Paul 1985).

3. Financial Rehabilitation

African PEs suffer from three major types of financial problems. These are poor capitalization, high debt levels and illiquidity. All are serious, but the problem of poor capitalization is the most telling on a company. Many PEs in Africa were started with too little capital than they required. The result is that the organization is crippled from the start. It is not able to purchase the equipment that it requires for profitable activities. Barbara Grosh (1991) gives the example of Kenya Airways which started with two, small outdated planes, a fleet that made it difficult to compete with major European airlines on the same routes. In some countries, initial operating capital and investment promised by governments were never delivered yet the PE has gone ahead to incur debts against such promises.

As a result of this and other factors, a second financial problem is that of high debts. Several times, government's initial subventions are regarded as debts which the PE is expected to pay back rather than an equity in which the government expects to be paid dividends. In some cases, it is a combination of the two. The problem is that many African governments prefer to regard this capital as a loan which is to be paid back as soon as the PE commences business. This not only decreases the firms capacity to operate as it has to pay back its debts while still struggling to survive, it also increases the PE's riskiness.

A third financial problem is the reluctance of governments to grant adequate liquidity to their PEs. This means the firms are short of current assets and this could become disastrous for a company in case of any negative developments-delayed supply of inputs, breakdown of machinery etc. Such parastatals often resort to borrowing from the commercial banks with much higher rates of interest thus increasing their debt profile. The problem is also usually compounded by high after- profits tax and requirements that PEs repatriate their profits to the government treasury and in other cases by the refusal of government to pay for the services it receives from the PEs -at all or in time. Several PEs in the region have responded by refusing to pay their debts or tax as and when due thus complicating the financial situation. The result is weak and confused financial management practices.

Most of these problems arose from the fact that African governments have a large PE portfolio and are usually short of cash to adequately support all of them.

Some reform efforts have been directed at the financial restructuring and rehabilitation of public enterprises in Africa. This has taken the form of using donor funds to prepare specific PEs for privatization or institutional reform. There has also been a renewed interest to develop capital markets. A Stock Exchange has been opened in Accra and the sale of the Ghana goldmines were advertised both at the London and Accra stock exchanges. Uganda is also working hard on creating a stock exchange in Kampala. Finally, the IFIs have been doing their best to ensure that cross indebtedness between governments and PEs are rationalised while at the same time pressurising governments to reduce subventions to PEs allowing them rather to source their funds from capital markets and other independent sources in order to reduce dependence and boost financial accountability.

Unfortunately, very little success has also been recorded in this area. The World Bank's appraisal of efforts to reduce government subventions to parastatals based on scattered evidence shows that financial flows from governments to PEs have remained quite substantial.

4. Reform of Institutional and Managerial Framework

Even die-hard advocates of divestiture recognise that there are strict limits to privatisation in several African countries. Most governments in Africa have restrained from divesting their interest in what they refer to as strategic PEs. Yet, as we saw above, they are by far the largest PEs in terms of assets, and financial and human resources. The challenge is whether performance of the PEs remaining under government portfolio can be substantially improved through institutional and management reforms.

Institutional and management reforms attempt to respond to the principal - agency problem- that of ensuring that relationship between the government and the PE is one that is supportive of productivity and performance rather than negating them as often seems to be the case.

To this end, two major reform strategies are embarked upon. The first are efforts to produce diagnostic studies of the organization and the second is to proceed on the basis of these diagnostic studies to put in place a performance or contract plan between the government and its agent - the PE.

The purpose of these contract or performance plans is to attempt to counter the problems of vague objectives, insufficient autonomy and weak incentives. They therefore endeavour to spell out the rights and duties of the government as against those of the enterprise. The plan also identifies the objectives of the enterprise, and establishes as much as possible, the criteria by which the enterprise is to be assessed. In addition, the required restructuring measures of a financial and personnel nature in the PE are identified as well as the government's responsibilities and commitments with regard to: legal and institutional changes desirable, prices or tariff schedules, allowable or target number of employees, physical, human and financial resources to be accorded to the PE during the contract plan period including capital restructuring requirements, loans and loan guarantees.

The contract plan originated from France and is therefore very popular in Francophone Africa although a few anglophone countries have also experimented with the plan (notably Ghana, Cameroon, Uganda, the Gambia and Sierra Leone and Nigeria). The evaluation of the plan in Africa by the World Bank (1994: 108) is instructive:

> Although contracts can be useful in identifying problems facing an enterprise, they generally have not been effective in improving the performance of key enterprises ... In Cameroon, where the government signed contracts with major utilities, neither the government nor the utilities have lived up to their obligations and the contracts have had little impact. In Ghana, only four of the eleven firms with performance contracts reached the negotiated targets, because of lack of financial discipline and performance accountability. Making a performance contract work may require conditions which seldom exist.

The reasons for failure include: a) the lack of a commitment by the two parties to the plan's requirements; b) absence of the capital to undertake the capital restructuring requirements; c) absence of enforceable targets, incentives for success or sanctions for failure, especially given the absence of financial audits, information on fiscal transfers and tax exemptions and productivity indexes.

Overall Assessment of Public Enterprise Reforms in Africa

On the whole, the prospect for the reform of Africa's public enterprise improved in terms of the existence of a higher level of concern and the generation of a wider range of options on what should constitute the direction and elements of reforming PEs in Africa compared with an earlier period in which commissions of enquiries were occasionally sent in to probe individual performance of specific PEs. The outcome of such commissions was the imposition of more controls on PEs thereby leading to a marked departure from the ideal that these PEs should have only an arm's length relationship with civil service departments. In spite of this, PE reform has had very little impact in most of the countries in the continent. Yet, a lot of discussions have been held on these issues at various levels and a rich literature has emerged. The question is why has progress been so slow and achievements meagre in the area of PE reform. We attempt to offer three major reasons here.

First, the involvement of the public in the reform process is minimal. PE reform policies and programmes are usually worked out between IFIs and the national governments - in most cases with a lot of secrecy. Yet members of the public are expected to be the chief beneficiaries from improved performance of the PEs. If anything, the whole process constitutes a swell ground of opposition from the masses of the people. There is therefore a need to reformulate PE reform policy and the manner in which PE reform is formulated and the manner of its presentation to the public in Africa. In particular, PE reform must tackle fundamental dilemmas of the policies currently being advocated such as conflict of objectives -to reduce waste, reduce budgetary wastes in the short run or to pursue long term efficiency goals while sustaining losses in the present, selling PEs to foreigners and a few rich or to pursue populist capitalism etc.

Secondly and closely related to the first point is the fact that the PE reform process is completely dissociated from the political reform processes and activities. In fact, some scholars, mostly from outside the continent, believe that PE reform can only be implemented by autocratic leaders since it is bound to be unpopular and difficult for new democratic governments in view of the strong lobby of those who stand to gain fro the status quo (See for instance Glade 1991, based on Latin American experience). But this does not have to be the case if PE reform is properly conceived and formulated as we suggest in chapter four.

Finally, improved accountability is central to PE reform in Africa. Unfortunately, this issue has not been given the type of importance it deserves either in the literature or the policy actions in respect of PE reform in Africa. The emphasis has been to conceive PE reform as a primarily fiscal/economic activity. While this is the case in some important respects- especially as several of the elements relate to how market accountability can be enforced- but the fundamental issues raised by PE reform is about how to ensure that public resources are justifiably utilised. Analysis of the problems confronting PEs in Africa shows that a lot of the problems arise from the deficit of institutional accountability in terms of the manner in which power and resources associated with PEs are utilised by various actors and institutions. Hence, there is a dearth of a tradition or culture of financial accounting, auditing, standards for measuring success or failure or even the institutional infrastructure for monitoring PE performance.

Two factors which explain this problem are rooted in the political economy of African states. First, the tendency for African governments to centralise activities in the central government bureaucracy. Solutions to PE problems (as it is with local governments, cooperative associations or trade unions) have always been conceived as the imposition of more stringent central controls. But further controls without tackling the problems confronting the PEs - sudden changes from the external environment, poor capitalization, conflicting objectives which are required of them and negative staffing and incentives policies- become counterproductive and only leads to the further decline of PE performance. The second problem, which is concomitant to the first, is that the critical institutions which should promote accountability and ensures that the central bureaucracy acts in the public interest - such as the legislature, ombudsman, consumer councils, the media, Audit offices etc- are either denied of adequate resources, repressed or proscribed altogether (Wunsch & Olowu 1990, Grosh & Mukandala 1994).

These issues are explored further in the succeeding sections.

III The Centrality of Accountability to PE Performance and to PE Institutional Reform

The Model of Accountability for Public Enterprises.

Africa's public enterprises were patterned after the model used by the two major African colonial powers: Britain and France. Like many other European countries, these two countries resorted to public enterprises on a large scale as a mechanism for bringing about reconstruction after the First World War. The model for governing PEs in these two countries were quite similar and each African country copied, as it were the PE governance model of its metropolitan country. The model of PE governance, referred to in Britain as the Morrisonian model, after Mr. Herbert Morrison, Transport Minister in the United Kingdom from 1929 to 1932, who is credited with initiating the idea of 'an autonomous, self-contained corporation, operating with its own corporate personality, perpetual succession, the right to sue and be sued, full control over its movable and immovable assets and accountable to the Parliament only through the Minister.' Within the framework of this model, PEs are expected to operate at an (arm's length) distance from government with a large degree of independence on matters of administration while ministerial intervention must be confined to matters of policy on which the Ministry alone is answerable to parliament. Most PEs in the world have been based on this model of governance.

Even though experts disagree on the effectiveness and success of this model, the model seems to have worked fairly well in Europe. PEs were resorted to build and rebuild several parts of Europe after the two world wars and in many instances were created as a response to widespread market failure in the area of utilities and to assist depressed areas (Ramanadham 1991, Mhiyo 1994).

Central to the model is that public enterprises require autonomy to be able to compete and function in the manner that private enterprises operate. Managerial autonomy was assumed as necessary not only to attract skilled personnel, outside of the framework of the civil service, but to ensure creativity, innovation and risk-taking. The PE was thus subject to two types of accountability: accountability through market discipline and parliamentary accountability through the Minister of the supervising Ministry. The major difference between the Francophone and Anglophone forms is in the manner by which PEs report to parliament. In anglophone countries they report through the supervising Ministry whereas in the Francophone model they report through the Ministry of Finance or the Treasury (Wilson 1988, Saulniers 1991).

There is a debate about the efficacy of this model. On the one hand, there are those who hold that this model has relatively been a success- going by its record of performance in Europe and North America, and, indeed in some cases, in Africa. PEs have been applauded for managing to be both independent entities and at the same time account for the use of public resources.

Hanson (1955:20) identifies three major advantages of the model: it recognizes the inevitability of state participation in economic enterprises, addresses the limitations governments face in performing intricate entrepreneurial functions, and seeks to bring about a balance between the flexibility and autonomy enjoyed by private commercial enterprises and responsibility to the public. President Franklin D. Roosevelt (cited in Mhiyo 1994:23), the American President who masterminded that country's 'war on poverty' perceived Morrisonian corporations as 'clothed in the power of government while possessing the flexibility and initiative of private enterprise'. Even today, after the glorious period of large- scale privatisation in Europe, it is becoming clearer that there are few alternatives to PEs and that efficiency is not a function of ownership but a range of factors including size and the shape of the market (Adam et. al. 1992). There are those who are even contending that the divide between public and private sectors constitutes a false divide in view of the wide prevalence of the possibilities for co-production between public - private and voluntary providers (E. Ostrom 1996). Some others also point to the relatively successful PE operations in Africa - enterprises that have annually returned profits to government in the region. (Sauliners 1991, Rasheed et al 1995).

On the other hand, there are those who hold that the PE model is particularly defective with respect to accountability. Mhiyo (1994:7), for instance argues that the Morrisonian corporation is neither accountable to market nor parliament nor to the public. It is protected by the law and the courts (even in Britain) from liability as private sector enterprises would be because they claim governmental privilege. They also derive their financing from government subventions rather than equity or commercial sources, thus weakening the discipline of the market on financial management. They are not directly responsible to parliament but only indirectly through the minister in charge. He believes that this elevates bureaucratic controls over PEs over and above representative institutions such as parliament, with disastrous effects. He argues that this tradition has not only been preserved they have been magnified in Africa (Mhiyo 1994: 29).

Country - Cases of Flawed Management of PEs in Africa

The experience of PEs in Africa is one in which bureaucratic power has been supreme with little or no allowance made for accountability to the market or to the public, as represented by the parliament. African states may be grouped into two broad types from this point of view. Those that allow some nominal legislative accountability over their PEs and those that abolished the legislatures altogether. The latter category will include the military controlled states such as Nigeria and Ghana (until 1992). The second type, those with nominal parliaments will include countries such as Tanzania. In both sets of countries, however, the government, over time, brought PEs under closer bureaucratic control using as excuse the problems faced by the PEs - declining performance, financial insolvency or corruption. Yet, these only worsened matters as increased centralized management not only further hastened the

decline of these enterprises, it worsened their financial portfolios and turned several PEs into a part of the corruption triangle involving civil servants, the PEs and the private sector organs. (Turner 1978, Olowu 1985, Grosh 1991)

In order to demonstrate the nature and various dimensions of this problem, we select the experiences of three countries on which detailed studies exist to illustrate the close linkage between weak accountability and poor performance. The three countries are: Nigeria, Kenya and Tanzania.

Nigeria is a country whose PEs have been estimated at between 600 and 1,700 in the mid-1980s, that is, if we include both federal and state level parastatals[1]. The discovery and marketing of oil in commercial quantities in the 1960s and 1970s led to the creation of a spate of parastatal agencies by all levels of government. PEs were regarded as the instruments not only of ensuring that the commanding heights of the economy were owned and managed by the government on behalf of the people (as contained in the 1979 constitution) but also in enterprises such as banking, insurance, distributive and retail trades, aluminium, textile, breweries etc. The hope of the governments were that they will help to stimulate the economy, generate employment and surplus financial resources. In 1972 and 1977, the federal government passed Indigenisation Decrees or legislations designed to ensure that medium and large scale enterprises passed to Nigerians. Since there were few buyers for many of these enterprises, the federal government and the states bought these enterprises, in whole or in part, through majority equity shares, in trust for the people (Adedeji 1981).

The major problem, however, was that these parastatals were so poorly managed, as revealed in several commission reports. The primary reason for their poor performance was the fact that their boards of management tended to be dominated by party stalwarts, without respect to their qualifications, competence or background. This continued even though federal government policy on the management of parastatals was that persons active in partisan political activities should not be appointed to the boards of parastate agencies. According to Adamolekun (1983:50) who has done a lot of work on this country's PE system:

> because of the generally poor quality of board members, the vast majority of PEs in Nigeria have suffered consistently from a lack of clarity in their policy formulation. Also, since board members know that partisan political activities qualified them for the job, they have tended to see their primary role as the pursuit of partisan political interests with hardly any commitment to the achievement of the goals the enterprises, however defined. These incompetent and uncommitted board members see their respective enterprises as avenues for employing unqualified party loyalists ... (and) above all to

[1] There is no definite information on the number of parastatals in this country even in official circles. The following estimates have been made by official and non-official sources: Onosode Commission 1981 (600), World Bank 1992 (1,700), Lewis 1994 (700).

build up an economic base (through contracts and middleman activities) at the expense of the public ...

Long periods of military rule only tended to worsen matters. The legislature to which the PEs are theoretically expected to be responsible to are usually the first casualties of military rule. Even in the short period of civilian government between 1979 to 1983, members of the legislature had no clear idea of their role in the management of PEs which were effectively responsible only to the executive or supervising ministries who had appointed their Boards in the first place and to whom they hold same party allegiance.

Under military rule, which has been the dominant mode of governance, the military have resorted to the appointment of Executive Boards whose chairman is also the chief executive of the enterprise while the heads of the various units were members of the board of management. This tended to obliterate the difference between policy and detailed management and led to a situation in which attention to accountable performance suffered- the PE was practically accountable to no one but itself. The situation was still further compounded by the fact that the quality of persons appointed by the military were not more publicly-spirited than the civilian appointees. The military authorities went further, especially under the Gowon regime, to appoint civil servants to these boards who were expected to supervise these PEs as members while the Permanent Secretary of the supervising ministry was chairman of the board in some cases of several PEs. These developments had profound effects on staffing, financing and financial control of the PEs. Several of them by 1986 were found not to have submitted any audited accounts for upwards of 10 years, some of them since they were created.

As it is to be expected, these PEs sustained severe losses and became the major theatre for the documented cases of large scale corruption in Nigeria usually involving a triumvirate of senior civil servants, the PE board/management and private businessmen. When recession forced the Nigerian federal government to embark on parastatal reform and to take stock in 1985, it was discovered that the federal government had invested an annual sum of US$23.2 billion in industrial and commercial PEs as equity and loans/guarantees besides another US$11.5 billion as grants and subventions. Yet, from these huge investment it received in return only US$1.5 million in dividends and loan payments between 1980 and 1985. (Lewis 1994). These returns were regarded as ten times smaller than would have accrued to the government if the same amount was placed in a deposit account (Kuye 1991).

Besides the poor financial returns, most of the parastatals especially those responsible for utilities such as electricity, water, ports, rail and air transportation were found to be inefficient and non cost-effective. Just to give a few examples, the Nigerian Airways continued to make severe losses and submitted that airline business could never be run at a profit in the country until private airlines were allowed to compete with it. This sector has become one of the booming business in the country to -date. An audit probe of several parastatals

in 1994 revealed huge cases of corrupt practices at the ports (air and sea), the railways and the posts and telecommunications - all large scale PEs. Recently, it was revealed that the Nigerian Telecommunication Authority (NITEL) looses to illegal private telephone operators, the sum of about US$10 million annually while the nation's major revenue earner, the Nigerian National Petroleum Corporation looses about 150,000 barrels of oil daily due to poor accounting and record keeping of the country's oil sales. Ditto for the banks and other financial institutions owned by the federal and state governments (Guardian 1995).

Unlike Nigeria, Kenya has a had a relatively stable period of civil government. The major change in governance occurred in 1978 with the succession of the President Jomo Kenyatta by the current Head of State, President Moi. This period also coincided with the end of the coffee and tea boom and the first warning signs of the oil price shocks of 1978/79. According to Barbara Grosh (1991), who has carried out a detailed study of Kenyan PEs, this period marked a watershed in the history of parastatal performance and management in Kenya. Many of the PEs in Kenya were created after the publication of the government's Sessional Paper no. 10 titled, "African Socialism and Its Application to Planning in Kenya" (1971) in which the government of Kenya committed itself to the promotion of rapid economic growth and equitable distribution of the country's resources.

Several firms were established in the public sector to encourage Africans to participate more actively in private business during the period (1963 - 1978). Even though several of these agencies suffered from poor selection of directors and hence had serious financial and staffing problems, Grosh contends, based on her extensive survey of the country's PEs sector that they generally performed well. Her study of 32 major PEs in Kenya from 1963 to 1988 returned the following verdict.

On the whole, several of the PEs in Kenya, were able to weather the crisis confronting them from the external and domestic sources in the late 1970s. What makes her work particularly interesting is that she used a combination of four performance measures: finance, efficiency, returns to consumers and returns to suppliers. She was also able to identify the major factors that lead to poor performance in some firms and not in others. Her findings are instructive and are quoted in extenso:

> In every sector some PEs performed efficiently and profitably for many years. Even following the crisis of the post-coffee boom era, many firms continue to function well. In some cases, banking for example, these public firms compete head to head with private capital, both multi-national and domestic, and have held their own. In other cases, especially in the agriculture and in the public utilities, the firms were monopolies. Their success at containing unit costs and refraining from monopolistic pricing demonstrates that it is possible to appoint capable and public-spirited managers who will do a good job without punitive or restrictive controls ... In the manufacturing sector, while public firms were on the average inefficient, private firms are at least as inefficient (Grosh 1991:154).

What is most important for our purposes in this paper is that Grosh's study demonstrated there is an inverse correlation between the degree of supervision parent ministries provide and the effectiveness of the firms. Unfortunately, instead of helping the PEs to tackle some of the major problems with which they are confronted - shocks emanating from the world economy, social, financial and regulatory policies imposed on PEs by the government - the policy response has been to bring the PEs under greater civil service controls - 'by harmonizing their salaries and their rules of conduct with those of the civil service'(ibid 155). This response has only further compounded the PE problems identified earlier as PEs increasingly become part of the governmental spoils system.

In concluding her study Grosh noted that:

> In contrast to the popular perception, problems with managerial corruption or inefficiency are of secondary importance. The reforms that were initiated in the 1980s to attempt to bring managers under greater control have almost certainly not made the poor managers better, but probably have caused the better managers to perform worse than they did before (Ibid. 169, emphasis added).

It is instructive that in Kenya, the legislature plays a very minor role in the management of PEs. Most of the initiatives are taken by the supervising ministries. In other words, excessive control by the civil service turned several parastatals from successful to unsuccessful agencies in the 1980s. In fact, Grosh (1994: 58) claims that two tendencies have led to the precipitous decline of parastatal performance in a country whose PEs provided one of the best examples of the positive politics of parastatal performance- the tendency for the executive to use parastatals as parking lots for failed politicians and the sensitivity of the executive to the existence of any power centers outside of its orbit of control.

Tanzania adopted socialism in 1967 and not surprisingly its parastatals sector expanded rapidly in the late 1960s and especially in the 1970s. Nellis (1986:5) credits the country with one of the highest number of parastatals in his 1986 study with a figure of 400 PEs. These PEs by 1986 constituted 40% of the country's GDP and employed 32 % of the total labour force and absorbed an average of 75% of the government funds. PEs in Tanzania inherited the Morrisonian model like the other African colonies. However, in Tanzania, additional features were introduced to the system. These included: a clear articulation of the ideological role of PEs necessitating for instance, the management of PEs through workers' councils and enterprise committees, the payment of political party cadres and members of the people's militia from the coffers of the PEs - their salaries, accommodation, food and transport during national congresses and annual festivals organised by the government. Most importantly, the government was dependent on these PEs for revenues, services and credit. The corollary to this arrangement was that the government maintained a very close supervision over the parastatals, while negating all

institutional arrangements for enhancing market and non-market accountability- the courts, the legislature etc.

Market accountability was undermined by the fact that the PEs sourced their funds exclusively from grants, credits and subsidies. They were also not required to file annual returns like their private sector counterparts and their prices were usually fixed for them by the Price Commission. The latter often kept prices artificially high, a fact which explains high financial returns of a large number of the enterprises. Their revenues kept rising in spite of declining levels of output (Mhiyo 1994: 19). Furthermore, the courts were stripped of powers to prosecute PEs for malfeasance - they were strictly forbidden from adjucating in cases which challenged the powers of the state or its agencies or those that sought to elevate market controls over non-market controls.

The legislature which theoretically had the power of oversight over the parastatals was sidelined by the executive through a number of ingenious mechanisms. A few of these will be mentioned here. First, procedural barriers are placed on the range and type of questions that could be asked during the parliamentary question time. Second, statutory limitation on the disclosure of official information (due to the Official Secrets Act) are extended to the legislature. Moreover, the legislature had no statutory power to access public documents or compel public officials to give testimony before parliament and its committees. Thirdly, the single official party and the regional administrations pre-empted any initiatives by the legislature. Matters of policy are usually decided in the party and members who become troublesome and raise embarrassing issues are threatened with expulsion from the party, a development which may mean withdrawal from parliament and the impossibility of getting re-elected. Fourthly, the annual reports sent to the legislature was very limited in terms of the information it provides- mainly cash balances but no details on the overall financial status of the firm or its pricing policies etc. In any case, several PEs do not submit any accounts since the audit agency, the Tanzania Audit Corporation (TAC) had no powers of sanction or enforcement over defaulting or erring PEs. Finally, the legislatures were also handicapped by their lack of training or capacity to use the available opportunities to compel the executive to provide more information which could form the basis for an effective scrutiny of the performance of PEs.

It is also significant to note that the legislature is also incapacitated by a number of organizational constraints. They have no independent sources of information on government activities and they have no control whatsoever over the system which disseminates information about their own activities-no libraries, no personnel to assist them with processing information and the office of the Clerk of the National Assembly is staffed by civil servants.

What emerges from this review of three country cases is that even though African PEs were established with commercial and altruistic motives, most of them ended up becoming instruments for enhancing centralized state power rather than producing service to the people or making money for the public.

The study also shows that efforts to reform PEs by further bringing them under the control of the executive in military and one party sates only tended to aggravate rather than ameliorate the problems faced by the PEs. Nevertheless, at the same time they show that there is nothing inherently inefficient about PEs. They are capable not only of making profit and competing, under an appropriate regime of relative autonomy and the application of market and non-market accountability. The only problem is that in many African countries, mechanisms of accountability were inhibited by overbearing state controls. These issue are further pursued in the next section where we review the studies on successful parastatals on the continent.

Lessons of Success Cases

The above observations have been strengthened by empirical case studies of successful and poorly performing public enterprises on the continent. Several studies on the state of African PEs usually note that there are a few exceptions that are star performers. One author, Sauliners (1988) contends the overall poor performance of African PEs. He argues that PEs in Francophone Africa are not losers as judged by the standards of financial performance and that they have consistently transferred funds to government budgets and compete well with local and multinational firms. He also contends that Francophone African PEs perform better on the average than Anglophone African PEs and they have had more successes at privatisation and contract plan reforms than the anglophone counterparts.

While the Sauliner study may be faulted for focusing exclusively on financial performance indicators, two other comparative studies combine a variety of indicators to reach their conclusions. These two studies are reviewed here.

The first, by John Knight (1994:327-330) reviews 10 case studies from 6 African countries (3 from Ghana, 2 from Kenya, 1 each from Ethiopia, Madagascar, Nigeria, Sierra Leone, Tanzania). The full result of the research is reproduced in Table 5. The good performers are free from government interference but they have very effective systems of accountability and all the things that go with this. Knight (ibid 330) summed up his study as follows:

> The good performers tend to be free from government interference, but are accountable to government and subject to government sanctions and rewards, whereas the bad performers tend to have the opposite characteristics. The good performers have clear delineation of authority, good financial records, and information and monitoring flows; they are profit-making. In each the case, the reverse is true for poor performers. Overmanning, inadequate pay and scarcity of managerial and technical staff are characteristics of poor performers but are avoided by the good ones. Donor involvement strengthens the performance of the successful PEs.

The findings of the second study conducted by the UNECA are virtually the same as those of Knight. The additional dimension in the UNECA study of ten successful and poorly performing enterprises in Africa (5 each way) was that

success and failure cases were picked from the same sector. This thus eliminates the factor of sector -specific explanations for success. The samples were selected from 9 countries (Botswana, Benin, Ghana, Nigeria, Tanzania, Uganda, Sudan, and Senegal). Their results are summarised in Table 6. In particular, they note that all the enterprises displayed mixed features, however, the successful PEs displayed a preponderance of characteristics associated with success (Rasheed et al. 1995: 27). Interestingly, this study did not mention accountability explicitly as the Knight study did. Nevertheless, it underscored factors that are usually associated with accountable performance: absence of political interference, freedom to fix prices, raise funds from both money and capital markets, responsibility for results, clearly defined corporate objectives with appropriate tools for assessing performance, remuneration based mainly on performance etc.

Though limited because they are case-studies, they point conclusively to the fact that accountability is crucial for the successful performance of public enterprises. Clearly, what PEs in Africa require are not more stringent controls as is often thought but more effective systems of accountability to the public.

In the next and final section, measures for enhancing accountability of Africa's PEs are proposed based on our findings thus far.

IV Strategies for Enhancing Accountability of African Public Enterprises

Introduction

If improved performance of Africa's PEs is the overriding goal, a new approach to PE reform in Africa is desirable. Thus far, we have shown that most of the present reform initiatives have limited application and because they operate under erroneous premises.

First, it is evident that PEs will continue to be an important feature of the public sector and would play both economic, social and political roles. Second, we have attempted to demonstrate that enhancing accountability in the management of PEs is the key to the resolution of the various problems confronting PEs on the continent. Contrary to commonly held opinion, we have shown that PEs in Africa perform creditably when the conditions are right and their is evidence that some of them have done better than private sector organizations and multinationals. There is documented evidence that they have succeeded in number of countries in the region in compelling monopoly private sector enterprises to become competitive (particularly in the financial sector), they have redistributed resources among sectors and between regions, provided much needed infrastructure which would not be otherwise provided by the private sector, facilitated the emergence of indigenous entrepreneurs and their positive performance have lent credibility and political support to the political leadership. This latter is what one scholar has referred to as the 'positive politics of parastatal performance' (Grosh 1994: 45).

In almost every case in which PEs have performed poorly it is because the appropriate combination of market and public institutional accountability mechanisms have not been utilised or because public sector controls have been substituted for accountability of these institutions to the public or to agencies that are capable of genuinely representing the public interest. In such cases, there has been no commitment between principals (Ministry) and the agent (PE) alike that the PEs should perform creditably. In these cases, PEs have become part of the politics of graft, patrimony and political spoils.

It is therefore possible to view all the present reform initiatives efforts designed to expose Africa's parastatals to different combinations of market and public sector institutional accountability. Generally, and as much as possible, PEs should be exposed to accountability through market mechanisms which implies that they require the type of autonomy characteristic of private sector enterprises to enable them respond to signals from the market. Where this is not possible, PEs should be exposed to appropriate public sector accountability mechanisms. In this chapter, an attempt will be made to suggest how this could be best done.

Towards a New Approach to PE Reform in African Countries

Until the economic crisis which came in the train of the oil shocks of the late 1970s, most of the African countries had no clearly articulated policy on PE reform. In spite of the revelations of their poor performance, most of the countries in the region continued to create more PEs either in an attempt to improve performance (e.g. Holding Companies) or to respond to new social and economic challenges. The official response in many of the countries was based on the assumption that increasing central government control on the PEs would improve performance levels, a response that has almost always led to even poorer levels of performance.

However, the economic and budgetary crises of the late 1970s onwards led to a concern on the monumental weaknesses of public sector organisations - a concern that led international financial institutions (IFIs) such as the World Bank and the International Monetary Fund to identify public enterprise reform as one of the major elements of structural reform. PE reform under these programmes had two major components: (a) reduction of PEs through liquidation, divestiture or privatisation and (b) the rehabilitation and restructuring of the remaining PEs.

Our review of the implementation of this PE reform strategies shows that success has been limited. We tried to identify the major reasons for the limited success of PE reform in Africa. This may bear repetition here:

First, the involvement of the public in the reform process has been minimal. The key actors have been IFIs, central government agencies and the PEs. Other major stake-holders and the members of the public have been largely excluded resulting in the latter's complacent or cynical attitude to reform initiatives.

Second, the PE reform process has been dissociated from the political reform process. Indeed, some observers believe that the two processes are mutually contradictory rather than mutually reinforcing (Mkandawire 1994).

Thirdly, PE reform has been too preoccupied with privatisation, macro-economic reform and performance contracts between government and the PEs. As already indicated above, not as much attention has ben devoted to the improvement of accountability mechanisms especially in terms of the relationships between governments, PEs and the public.

One of the most important recommendations emanating from this study therefore is the need for African governments, in collaboration with international, regional development and donor agencies, to redefine what should constitute the thrust and major elements of PE reform policy.

Such a new PE reform policy must pay attention to the following issues:

- Articulate the objectives of PE reform policy. The objectives of PE reform must not only be tied to economic reform initiatives but also to governance reform.

- It should incorporate a broad menu of options within the framework of PE reform policy. The menu of options should include liquidation, competition, partial and full privatisation, private sector development (through joint ventures, development of capital markets, provision of credit and information to small/medium scale private sector activities), decentralisation of PEs and most importantly, the enhancement of accountability mechanisms with respect to PE management.

- The improvement of the welfare of the public (through improved quality of services received from PEs) must not only constitute the focus of PE reform, the public must be actively involved in the formulation of PE reform policy and in its implementation and monitoring.

Suggested Major Components of PE Reform Policy

We mentioned in the last sub-section the need to broaden the menu of options available to countries in the region with respect to PE reform policy. In this sub-section, we shall identify and briefly discuss the possible options that are feasible and which have high potentials for improving PE performance and public welfare in African countries.

The range of possible options include the following seven strategies:

- Developing Basic Data Indicators on PEs and PE Performance.
- Classification and Rationalisation of PEs.
- Partial and Full Privatisation.
- Partial and Full Commercialization.
- Encouragement of Private Sector Development.
- Strengthening the Regulatory Capacity of the Public Sector.
- Decentralisation.
- Enhancing Accountability Mechanism.

As already suggested above, the last is the most important but in fact the other reform elements are components of the effort to increase accountability and will therefore be treated briefly before we return to specific strategies for enhancing public sector accountability.

(a) Developing Basic Data and Indicators on PEs and on PE Performance

One of the most important signs of ailment in any organisation or organism that is expected to be self-regulating is the loss of its self-regulatory capacity. The fact that several countries in Africa do not have a good idea of their PE portfolio is itself one of the clearest indicators of crisis.

The first component of PE reform must therefore be the development of basic information on the total PE portfolio: their number, objectives, the sector in which they operate, their inputs (employees, assets, liabilities etc.), outputs, the pricing mechanism available to them and the major problems confronting each of the PEs. Furthermore, there will be a need to identify appropriate indicators of performance for the different types of enterprises - especially those with economic and social objectives.

It is expected that this should not be too difficult because of two developments in the last decade and a half. The first is that the different Structural Adjustment Programmes in which over two-thirds of the African countries have implemented have helped them to define PE portfolio through diagnostic studies undertaken as part of PE reform. Hence, a lot of useful information should already exist in most countries.

A second important development is that the United Nations Economic Commission for Africa (UNECA) has developed 'Indicators for Monitoring and Evaluation of the Performance of Public Enterprises in Africa' since December 1994. The indicators include general financial and non-financial indicators as well as industry - specific and macro-economic performance indices. The UNECA indicators have also been successfully utilised in some countries in Africa (with Eritrea taking the lead).

(b) Classification and Rationalisation of PEs

The next step after obtaining the basic information on PEs and their performance is the need to classify them by type. The important issue here is to identify which Pes are purely economic entities as distinct from those that are expected to provide social services to members of the public.

Why this issue is important is because government subsidies to PEs should reflect the extent to which they provide social services. This would lead to a structuring of government subsidies to PEs on the basis of the broad categories to which they belong.

For others of an economic or financial category, they would be expected to source their capital requirements from the capital market through equities.

African countries will have to rationalise their PE holdings. Some PEs are no longer capable of providing any services to the public. Some have incurred heavy debts that jeopardise their current assets. Such enterprises should be liquidated and their assets sold.

Closely related to the issue of classification is the need to merge and integrate a number of enterprises that are carrying out the same activities and for which there are no economic justifications for them to exist as separate independent entities.

It is important that all these processes are carried out in full view of the public and all the major governance and people based institutions be actively involved in the implementation processes.

(c) Partial and Full Privatisation

The record of privatisation efforts to date, as we saw in chapter two, has not been as good as expected. Most of the privatisations have been of small and medium scale enterprises and the few sales of large-scale enterprises have involved foreign capital.

Further progress in respect of full-scale privatisation is constrained by economic, fiscal and political factors. The economic problems include the fact that African PE sales market is a buyers' market in which buyers can afford not only discriminate but dictate conditions of sale in many cases. Some of these conditions not only compromise the economic objectives of PE reform but in a few notable cases, the fiscal objectives as well. The fiscal problems arise in part from the poor development of the capital market in several countries and the tendency for buyers to prefer successful, profit-making enterprises rather than the loss-making ones. In some cases, African governments have also been forced to gather the PEs before they can be sold, thus compounding the fiscal crisis of some of the countries involved.

The political problems are however the most serious. PEs were created in the first instance to promote the indigenisation of African economies. Privatisation is perceived as attempting to reverse these gains especially when it involves sale of enterprises to foreigners. More importantly, a lot of the PE privatisation schemes have been shrouded in secrecy and some top government functionaries have even been implicated in a few cases.

To this end, we recommend an approach which focuses on partial and full privatisation with greater emphasis on the former. The idea of partial privatisation, as successfully practised in several industrialised countries, involves sales of parts rather than whole enterprises, subsidiary units and the contracting out parts of the production, distribution and service activities or operations of PEs to the private sector. As argued by Samuel Paul (1988:26) "it will be easier to find subcontractor in LDCs to manufacture components and

ancillary items or provide services needed by large enterprises than to find local entrepreneurs to buy them outright". This will also reduce the assets, employee size and management problems of large PEs.

Moreover, governments should seek to reduce the overall size of their PE portfolio to enable them concentrate on tasks that no other organs will be willing or interested in undertaking. To this end, there is the need to educate the public that selling even profit-making PEs could be advantageous in the overall national interest. Government agencies will be free to regulate and tax such enterprises while releasing resources to pursue other socially- mandated concerns.

(d) Full and Partial Commercialisation

Financial and economic enterprises should be fully commercialised - that is they should be allowed to operate as any other private enterprises - source their capital and operating funds - from equity, debentures and loans. This will help them to adapt to the disciplinary and accountability requirements of the market.

On the other hand, the PEs that are serving primarily social objectives should be given subsidies to the extent of the proportion of their operations are of a social nature.

Complementary to this reform component is the need to enhance competitiveness of the various sectors of economic life as explained below.

(e) Developing the Private Sector

The indigenous private sector is relatively underdeveloped in most of the African countries. Policies at breaking up monopolies should be pursued by the removal of entry barriers to several protected areas of economic activity. The experience of the domestic airline industry in Nigeria cited in the last chapter is instructive. Public utilities such as electricity, postal services, water etc. should also be opened up to competition and allow market incentives to assert discipline on firms operating in each of these sectors.

Policies to enhance private sector development in the region will include promotion of joint ventures between private and public sector operators and atimes between domestic public and private sectors and foreign partners. The development of the stock exchange and the capital market should also be treated as priority as well as the creation of credit and information to the private sector. A set of strategies should also be devoted to assisting the informal and small- medium-scale operators. (see UNECA 1992)

Employee stock ownership is also another promising initiative as it has led to higher levels of productivity and improved PE management.

(f) Strengthening the Regulatory Capacity of the Public Sector over the Private Sector

The experience of the industrialised countries (especially Britain) underscore the need to strengthen the capacity of governments to regulate and police the market against anti-competitive practices (e.g. mergers and price-fixing by private sector cartels) and excessive increases in prices at the expense of the public.

Other regulatory initiatives that would make PEs more responsive to market pressures such as import liberalisation, liberal exchange rate regime often paradoxically require the creation of agencies to guard against the 'dumping' of foreign goods through organisation that monitor the standards of goods and services, provided by public and private, domestic and foreign agencies.

Most importantly, governments must strengthen their capacity to tax private sector enterprises and put policies in place that will ensure that they increase the proportion of value added with respect to their products before exporting them- especially in the natural resources extraction sector.

(g) Decentralisation

Some PEs can be broken up along regional or district basis to enhance their effectiveness. Even though this does not involve the entry of private entrepreneurs, the separation of producers from distributors especially in the utilities such as electricity, gas and eater are very promising. The use of major urban and metropolitan authorities to reticulate water and electricity in the Republic of South Africa is very commendable - they purchase these services and sell them to households in their respective jurisdiction. This not only ensures efficient management (especially in the collection of charges) but also enables the municipal authorities to have impressive cash surpluses.

Decentralisation of PE operations to local authorities will also enable several African countries to explore co-production option between public and voluntary agencies on the production of utilities and services which are presently being poorly produced by PEs (especially in the area of educational, sanitation and health services). (See E. Ostrom 1996)

(h) Enhancing Accountability Mechanisms

Much more attention needs to be paid to enhancing the accountability of PEs in Africa than has been the case. Current reforms seek to enhance the

accountability of PEs to market mechanisms. However, accountability to public institutions must be strengthened at three levels:

- Between the Public and the Enterprises or the Board;
- Between the Board and the Management; and
- Between the Management and the Workers.

These issues are examined in detail in the next and final sub-section.

III Strategies for Enhancing Accountability in the Management of Africa's PEs

As explained in the earlier section of this chapter, accountability is about relationships between principal and agent. To improve PE accountability will therefore imply improving the instruments or mechanisms for accountability at four levels as already highlighted above. The details of how to improve these different institutions are discussed briefly below.

A Accountability Mechanisms Between the Public and the Enterprise

The strengthening of five major mechanisms are recommended in this area.

I Legislation on PEs

There is a need for a through review of the laws on public enterprises to correct two major types of problems. The first set of problems are connected with privileges and immunities under the law to which PEs are entitled. As much as possible PEs should be incorporated under the company laws and should have the same privileges immunities enjoyed by private sector enterprises. Only in cases where a PE is providing specialised social services should it be incorporated as a public corporation.

Secondly, a review of country experience in the region shows that excessive executive interference is rooted in the laws creating the PEs. The law would need to de-emphasise executive control and give greater prominence to accountability of PEs to the legislature and consumers' and citizen groups as proposed in this section. This is particularly important in view of the fact that several years of one-party and military regimes in most of the countries of the region have led to a repression of these institutions.

ii Accountability to the Executive

There is a need to rationalise the structures to which PEs are responsible within the Executive. Three institutions are used currently. These are: the Supervising Ministry, the Ministry of Finance or the Treasury and the Holding Company. Most countries use one or two of these institutions, depending on their colonial backgrounds (Francophone countries use the Ministry of Finance while Anglophones use the Supervising Ministry) but some use a combination of all three.

The Holding Company has a lot of merits but the experience of most countries in the region has been negative. In reviewing the Tanzanian experience, Mhiyo (1994: 141) noted:

> Holding corporations seem to have negatively affected the operations of corporations. Apart from the fact that they are non-productive and depend on the resources generated by subsidiaries, holding corporations tend to be top-heavy and bureaucratic. They have a role in showing decision-making, information exchange, evaluation, feedback and the distribution of product and services. If autonomy is accepted as necessary for increasing efficiency, holding corporations may have to be dissolved or, where retained, made very small.

Other studies have confirmed these trends (see for instance Wilson 1988) and several countries have dissolved their Holdings Companies or enterprises

Given the strategic importance of PEs in African countries' social and economic development, it is strongly recommended that a Committee on State Parastatals should be created in the Presidency or in the Prime Minister's Office. This committee should comprise representatives from the Ministry of Finance, Planning and the Audit Department. Supervising Ministries will be invited to its meetings as and when required. This body should be the institution that annually reviews the performance of PEs and makes recommendations to the legislature.

iii Accountability to the Legislature

The legislature is expected to be the ultimate organ to which PEs report. However, as seen in this study they have not been allowed to play this role neither do they possess the institutional capacity to discharge such responsibilities.

It is strongly recommended that effort should be made to ensure that the legislatures discharge their oversight responsibilities over PEs. For this to happen, the following measures would need to be taken:

- Strengthening of the Information-gathering and Compliance Capacity of the Audit Units

Government audit units should have a special division on PEs which has the capacity to gather and process information on each country's parastatals. It should also be empowered to sanction PEs that fail to submit their annual financial statement to it - for onward transfer to the legislature. On the other hand, good PEs should be rewarded.

- Legislatures should be have skilled personnel in their service capacity to process information should be enhanced. Most of the legislatures on the continent do not have staff of their own and are usually serviced by civil servants from the Executive branch. There would be the need to create Legislative Service commissions to ensure that the legislature has skilled personnel that can help them to vet information coming from the PEs. In addition they should have access to well furnished library services, staff assistants and personnel responsible for recording parliamentary or assembly sessions.

- The legislature should be specifically empowered to call for information from PEs and government departments. They should not be limited to the traditional question time, as the evidence to-date shows that this can be circumscribed by executive imposed requirements.

- Each legislature should be required to have a Committee on PEs. Members of this Committee should, as much as possible be people of high level expertise capable of appreciating the intricacies of providing modes and the national and international economies.

iv Accountability to Consumers/Citizen Groups

Besides the traditional accountability to the executive and to the legislature, the law and the judiciary, it is also being proposed that PEs in the region should be made accountable to Consumers' and Citizens' Groups.

The mechanism for realizing this objective is to require each PE board to have a 'Citizens' Charter' which will define its perception of its responsibilities to its consumers' and citizens. Such a charter will also define the rights of citizens in case the organisation fails to discharge the services it has pledged to provide. The perception of citizens of the performance of each enterprise should be fed to the legislatures annual review but should also be an important factor in fixing prices changed for goods provided by the PE and the compensation of its personnel.

v Accountability to Communities

In the same manner in which PEs are linked to both state markets, the case has been made of the need to effect a formal linkage between PEs and the community in which they operate. The reasoning is that such an arrangement

will compel PEs to be sensitive to local as against national state and market considerations (Howard 1982: 77-78). This is a particularly theme in Africa where the, mass of the people live in rural communities or urban slums and where informal community organizations are often more influential in development work than formal state institutions (See Chambers 1974, Esman & Uphoff 1984, Olowu et. al. 1991).

There are different ways by which PEs can be made socially accountable. They include the following options:

- PEs that target particular local communities could be established - e.g. the depressed, disaster or drought - or erosion-stricken areas of a country, with the community organizations represented on the board of management of the PEs. A variant of this is the establishment of community enterprises such as community or rural banks which have been a remarkable in a number of countries of Asia (the grameen banks) and some African countries (the tontines of Cameroon and the community banks of Nigeria).

- PEs could be involved in joint ventures between PEs and local community enterprises. A variant of this is the creation of a community trust to which both PEs and local communities contribute for implementing specific local development projects.

- Representatives of broad-based community organizations can be represented on the boards of PEs.

- decentralization of PEs as already noted earlier.

B Enterprise-Management Relationships

The most important issue here is how to guarantee competence and autonomy of PE boards. This raises issues of composition, tenure and autonomy of Boards of PEs and which have been the archiles' heel of PEs in several African countries. There has been a tendency to pack boards with either party supporters, cronies or civil servants (especially under military regimes).

Effort should be made to ensure that Boards of Management of PEs take full responsibility for their enterprises. They should be appointed on the basis of their expertise and given fixed terms (of three to five years) but their appointments should be reviewed annually on the basis of their performance on the board by parliament. At the expiration of their tenure, their re-appointment should be related to their performance.

Boards should be separated from the management but they must hold management responsible for the performance of the enterprise and should,

appoint the Chief Executive who should in turn appoint his own management team. The members of the management team should be assessed annually on the basis of their performance - to decide whether they should continue or be replaced.

Boards and management must be jointly responsible for sourcing funding for the organisation and the development of performance indicators and the citizens' charter for their enterprise.

C Management - Staff Relationships

The management must equally hold the staff responsible for performance. Management should seek to attract and retain skilled staff in competition with the private sector.

For this reason, the compensation system in PEs should not be tied to the civil service. They should rather be tied to the performance of the enterprise, the perceptions of their customers and the labour market for each skill. This will imply the drastic revision of compensation system within PEs.

Finally, effort should be made to encourage employees to purchase equity in the enterprise. Such experiments have produced positive results in many LDCs.

In conclusion, the thrust of these recommendations is to attempt to develop a PE reform policy that is sensitive to the realities and need of countries in the region. The paper has also attempted to shift the focus from purely economic/fiscal issues to governance issues with the hope that all actors in the PE sector will be made to account for their performance to the public. It is however critical that these policies be implemented in a credible manner, that will earn the confidence of investors and the public at large.

These recommendations have tremendous implications for new orientations and attitudes at all the three levels and in the different organs identified. Serious thought would therefore have to be given to providing training and retraining on these matters to change attitudes and to improve the stock of skills of all those involved int the management of Africa's PEs. Such training programmes can be organised at regional and country levels as appropriate.

Conclusion

The essence of the proposals made in this paper is to increase the accountability of African PEs to the people both through market and non-market mechanisms. The latter has been broadened to include different state and community institutions instead of being confined to exclusively to the executive as has been the case in many African countries to-date. The proposals are

made in recognition of the fact that PEs will continue to be an important of the public sector and have the potential to positively promote economic growth and development.

The faithful implementation of these measures will most likely lead to a rejuvenation of public enterprise performance in African countries. It definitely represents a shift from the past reliance on the imposition of controls by government departments to the accountability of PEs to state, market and community institutions. Controls are unidirectional mechanisms of ensuring compliance between superior and subordinate and past experience seems to suggest that they do not necessarily lead to more efficient or effective performance of parastatals. In contrast, accountability incorporates a mutually reinforcing reciprocal relationship between at least two institutional actors aimed at the attainment of common organisational goals.

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