PUBLIC AND PRIVATE ENTERPRISE IN AFRICA (Revised)*

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PUBLIC AND PRIVATE ENTERPRISE IN AFRICA

Most sub-Saharan African countries have some form of a mixed economic system. Regardless of the merits or disadvantages of eventual, near complete government ownership and control of the means of production, the African nations lack the manpower capabilities to perform all the functions of the existing and vast private sector of the economy. Any African country which today attempted a sweeping nationalization of the private sector would surely experience greatly reduced national income. Thus, for most African countries a mixed economic system is probably most desirable and most likely for some time to come.

With this in mind, the first part of this paper is devoted to a comparative historical analysis of public and private enterprise in East Africa, Ghana, and Nigeria. From this analysis, we lead into a discussion of general policy prescriptions regarding the relative roles of public and private enterprise in the process of economic development.

A. The Nature and Scope of Public and Private Enterprise.

The former British colonies in Africa today have one form or another of a ministerial form of government, staffed by a civil service. The functions performed by ministries are largely bureaucratic. A ministerial bureaucracy is ill-suited to engage in activities typically associated with any form of productive enterprise. For this reason, most African public enterprises are organized as parastatal (sometimes called quasi-government) bodies which are not part of the ministerial structure of government. These bodies derive their existence from articles of
incorporation, specific legislation, or governmental directive or decree. The degree of government participation in and control of parastatal organizations varies considerably from case to case.¹

There are three basic types of such organizations:

(1) Development Corporations. These government-owned corporations are largely holding companies, having equity in and granting loans to a number of different enterprises or subsidiary companies. Many of the activities of African development corporations are large scale, joint ventures with foreign owned companies or local entrepreneurs. In some cases, the development corporations also make loans or grants to public authorities.

(2) Public Utility Corporations. In many African countries, the great bulk of electricity generation, distribution, and sale is in the hands of a single, nation-wide corporation. The same is true for railways, ports, posts, telecommunications, and air travel. Radio broadcasting and water works are usually ministerial functions either at the national or regional level.

(3) Single Nationalized Establishments. In addition, there are examples of independent, state-owned productive establishments which cannot be placed in either of the above two categories.

B. Industrialization Policies

In the recent past, African countries have pursued three distinct types of industrialization policies. These will be labeled Patterns I, II and III.

(1) Pattern I - Industrialization mainly through reliance on private enterprise. Kenya is the prime example of this type. Before the Arusha Declaration of 1967, Tanzania followed the same basic policy.²

(2) Pattern II - Industrialization in which private enterprise is encouraged but the role of the national development corporations is conspicuous. Both Uganda and Nigeria fall into this category.

(3) Pattern III - A heavy reliance on public enterprises, some of which are obtained by the government through nationalization. Ghana exhibited a pattern of increasing importance of state-owned enterprises, especially in manufacturing, trade, and commerce, from 1962 through 1965. Nkrumah's overthrow resulted in a reversal of the trend after 1965. Tanzania nationalized a number of enterprises just after the Arusha Declaration of 1967.

²The Arusha Declaration of the 5th of February 1967 was a major policy statement by President Julius Nyerere of Tanzania and called for "nationalization of key financial and foreign trade institutions combined with an expansion of the public sector's share in large-scale food processing and manufacturing." For a discussion see The United Republic of Tanzania, Background to the Budget, 1967-68, Dar es Salaam, 1967, pp. 6-7.
Despite considerable differences in the degree to which these African countries rely or have relied on public enterprises, the significance and scope of publicly owned enterprises does not compare with what one finds in some of the socialist countries of the Western world. The vast majority of agricultural activity in the African countries is in private hands, and the role of agriculture is considerable. The following table gives percentage of Gross Domestic Product originating in agriculture for four typical African countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>1955</th>
<th>1960</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>59.6</td>
<td>61.3</td>
<td>60.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>41.5</td>
<td>40.0</td>
<td>42.1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>62.6</td>
<td>61.0</td>
<td>58.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>63.9</td>
<td>65.2</td>
<td>64.0*</td>
</tr>
</tbody>
</table>

*1963

These figures include estimates of non-marketed agricultural production which are, if anything, on the low side. Furthermore, the percentage of the economically active population engaged in agriculture can presumed to be considerably higher than percentage of agriculture in total GDP. Thus the latter measure tends to understate the relative significance of private activity in the agricultural sector.

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The sources for these data are as follows:


These percentages include value added in livestock husbandry, forestry, fishing, and hunting. The 1955 percentage for Tanzania is not strictly comparable with 1960 and 1964, since the basis for estimating accounts was revised for 1960 onwards.
The impact of the public enterprise is felt, if at all, most significantly in the non-agricultural sectors of the economy such as mining, manufacturing, public utilities, trade and commerce which account only for about one-half of total production and probably considerably less than one-half of the total work force. Even within these sectors, a great deal of activity is done on a small-scale or cottage basis by indigenous, private entrepreneurs or by large-scale, foreign-owned enterprises. Public corporations, operating on a relatively large scale and using modern methods of production, accounted for considerably less than half of total production in Ghana in all non-agricultural sectors (with the exception of public utilities) even in 1965, as Table I indicates.

Table I

Percentage of Total Gross Output by State-Owned and Partially State-Owned Enterprises in the Non-Agricultural Sectors of Ghana

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mining and Quarrying</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>26.3</td>
<td>25.6</td>
<td>20.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Partially state-owned</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>26.3</td>
<td>25.6</td>
<td>20.3</td>
<td>17.2</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>11.8</td>
<td>14.3</td>
<td>13.9</td>
<td>17.2</td>
</tr>
<tr>
<td>Partially state-owned</td>
<td>7.1</td>
<td>7.4</td>
<td>7.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>18.9</td>
<td>21.7</td>
<td>21.2</td>
<td>27.2</td>
</tr>
<tr>
<td><strong>Electricity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Partially state-owned</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>All Secondary Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>22.1</td>
<td>23.0</td>
<td>21.5</td>
<td>24.2</td>
</tr>
<tr>
<td>Partially State-owned</td>
<td>4.1</td>
<td>4.7</td>
<td>4.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>26.2</td>
<td>27.7</td>
<td>26.3</td>
<td>31.0</td>
</tr>
</tbody>
</table>

In Tanzania, the nationalization decrees were limited to specific industries and the largest part of the private sector was untouched.  

C. The Indirect Influence of Government

While the quantitative significance of direct government ownership and control is relatively small, the role of government is considerable in providing the economic, political and social milieu in which productive enterprises operate. Investments by African governments and quasi-government organizations in economic and social overhead facilities such as roads, railways, communications, health and education are an important component of total investment activity and lay the foundation for the growth of more directly productive economic activity. In East Africa, investment by governments and the East African Common Services Organization comprised

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4 Tanzania completely nationalized a number of firms in the banking, insurance, and flour milling industries. In addition, majority control was acquired in a number of trading companies, food processing firms, the sisal estates and miscellaneous manufacturing firms. For a discussion of the nature and extent of the Tanzanian nationalizations which took place in 1967 see:


(ii) The Economist Intelligence Unit, Quarterly Reports: March 1967, pp. 5-6; June 1967, p. 6; and August 1967, p. 7.


5 The East African Common Services Organization (EACSO) is a quasi-governmental organization set up and controlled jointly by the three East African governments, Kenya, Uganda and Tanzania. EACSO has basic responsibility for providing coordinated services such as posts, telecommunications, railways, harbors, airlines, weather forecasting, etc. EACSO will be discussed at greater length below.
from 32 to 44 per cent of total identifiable investment activity during the period 1957 to 1963. In Nigeria the percentage ranged from 46 per cent in 1958 to 36 per cent in 1963. In addition, a whole range of governmental administrative and legal activities profoundly affect the profitability of private enterprise and the ability and willingness of private entrepreneurs to make risky investment decisions in various sectors of the economy. Some of the most important government activities and policy decisions in this regard are

(a) prices paid to growers of cash crops by government-controlled marketing boards;

(b) the degree and type of tariff protection and tax relief offered to new industries;

(c) the granting of licenses and quotas to import;

(d) licensing and controls of various sorts on private entrepreneurs in certain specified industries such as trade, transport, insurance, banking, crop processing and grading, etc.;

(e) investment guarantees and repatriation terms offered to foreign firms; and

(f) the manner in which nationalization of industries takes place and the amount and method of compensation offered.

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6 See East African Common Services Organization, Economic and Statistical Review, December 1964, p. 105. These investment figures are derived mainly from cement production and imports and from import data on other building materials and capital equipment. They include only notional estimates of agricultural investment activity, especially that done on a subsistence basis. Thus these percentages probably tend to overstate the relative significance of government investments.

7 Government of Nigeria, Economic Indicators, March 1966, p. 43.
D. Industrialization - Pattern I

Kenya and Tanzania's (prior to 1967) industrialization processes provide the archetypes for Pattern I - heavy reliance on private enterprise. While the Kenyan and Tanzanian governments participated, through the East African Common Services Organization, in the ownership of East African Railways and Harbours, the Airways, and Posts and Telecommunications, the extent of government ownership and control beyond this was minimal. Even in the area of electricity generation and sale, the government's role has been limited.  

A move toward increased government participation in productive enterprise in Kenya was taken in 1964 with the establishment of the Development Finance Company which was authorized to provide share capital (and loans) for productive enterprises. The scope of this company was limited, however, "to fill marginal gaps in private project finance."  

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8The hydroelectric scheme at Seven Forks on the Tana River, which will satisfy Kenya's power needs for some time to come, represents a significant increase in government participation in power generation but is a joint venture by the Kenya Government, East African Power and Lighting, and Power Securities Corporation. Eventually, however, total control will revert to the Kenya Government when the other two participants are able to secure repayment for their investment. See Kenya Government, Development Plan, 1964-1970, Nairobi, 1964, pp. 96-97.

9Government of Kenya, op. cit., p. 81. The Kenyan Government's attitude towards the role of public and private sectors is summarized in the Development Plan as follows: "The limited capital resources of Government will be used to develop needed social services, such as health, housing, and education; to provide security and defence for the nation; and to expand those basic services and complementary facilities, such as roads, rail networks, communications and agricultural extension and research services, which are needed to lay the foundations for growth in the private sector. It is hoped that private capital will thereby be encouraged to stimulate growth in farming, manufacturing, tourism and other fields (p. 37-38).
In Tanzania, a number of more notable shifts in policy as regards the relative roles of public and private enterprise preceded the 1967 nationalization decrees. In 1964 two government trading companies were founded with a view toward increased government participation and control in the marketing of export crops and of imports, at both the wholesale and retail level. In 1965, the Tanzanian National Development Corporation was founded. By early 1967, however, most of its projects (aside from those taken over from the Tanganyika Agricultural Corporation, the remnant successor of the notorious Tanganyika Groundnut Scheme) were in the planning or construction stage. If we measure success in terms of growth rates, the Kenya experience with private enterprise has been fairly satisfactory. Value added in manufacturing more than doubled between 1954 and 1965 from $14.1 to $32.0 million. This corresponds to a growth rate of nearly eight per cent per annum with a good part of this growth occurring in the last two years, 20.5 per cent in 1964 and 9.0 per cent in 1965. The growth of manufacturing also provided some of the impetus to the growth of the service industries which has also been substantial as indicated below:

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1965</th>
<th>Annual Rate of Growth (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity and Water</td>
<td>1.24</td>
<td>3.56</td>
<td>10.1</td>
</tr>
<tr>
<td>Transport, Storage and Communication</td>
<td>11.84</td>
<td>29.60</td>
<td>8.7</td>
</tr>
<tr>
<td>Trade</td>
<td>21.59</td>
<td>35.37</td>
<td>4.6</td>
</tr>
<tr>
<td>Banking, Insurance and Real Estate</td>
<td>1.38</td>
<td>4.63</td>
<td>11.6</td>
</tr>
<tr>
<td>Other Services</td>
<td>7.90</td>
<td>18.37</td>
<td>8.0</td>
</tr>
</tbody>
</table>

10. See, United Republic of Tanzania, Background to the Budget, 1967/68, Dar es Salaam, Government Printer, pp. 36-37.


12. Ibid.
The key to a substantial part of this impressive growth performance, however, is found in the rapid growth in exports of manufactured products to Kenya's partners, Uganda and Tanzania, in the East African Common Market. Between 1954 and 1964, Kenya's manufactured exports increased more than four and one-half times, from £5.2 million to £23.7 million, at a rate of 16.4 per cent per annum.\(^{13}\) The common market gives substantial tariff protection to Kenya's manufacturing industry against imports from outside East Africa\(^{14}\) and allows free entry into the common market countries. Without the common market, it is hardly conceivable that the high rate of growth in manufacturing and related industries could have been achieved. Although precise figures are not available, Kenya's commercial and manufacturing centers, Nairobi and Mombasa, undoubtedly attracted substantial capital investment, both from outside East Africa and from Kenya's partners in the common market.

Tanzania exhibited even more rapid growth in manufacturing than Kenya, although the secondary industries were not stimulated to the same extent. Manufacturing grew at a rate of 11.3 per cent per annum between 1955 and 1962\(^{15}\) and 16.4 per cent per annum between 1960 and 1966.\(^{16}\)


\(^{14}\) See D. Chai, op. cit., pp. 36-37 for a discussion of protection levels received by Kenya exports to Uganda and Tanzania.


\(^{16}\) Government of Tanzania, Background to the Budget 1967-68, Dar es Salaam, Government Printer, p. 10. The Tanzanian national accounts were revised after 1952 and a consistent set of revised estimates provided back to 1960.
Some of Tanzania's growth in manufacturing was for export but not at all to the same extent as in Kenya. Although Tanzania’s manufactured exports grew at an annual rate of 9.8 per cent between 1954 and 1964, production for domestic markets grew much faster.

The considerable growth in private enterprise manufacturing production in both Kenya and Tanzania has had one very important defect, at least as far as the African governments are concerned. Nearly all the growth can be attributed to European and Asian entrepreneurship. Very little of manufacturing, trade, and commerce is in the hands of Africans. This has two important consequences. First, income distribution is highly skewed with per capita incomes of Africans, substantially below that of the European and Asian ethnic groups. Secondly, their lack of experience in responsible positions, in running efficient business enterprise, and in evaluating investment opportunities, places Africans at a serious disadvantage in competing with non-Africans. The operation of a completely free economic system will not alleviate these disadvantages and in many cases tends to reinforce existing patterns of economic inequality.

17Paul G. Clark, op. cit., Table II-B, p. 32.
18A. Bharati, "Political Pressures and Reactions in the Asian Minority in East Africa," Occasional Paper No. 12. Maxwell Graduate School of Public Affairs, October 1964, estimates that "in urban East Africa more than 75 per cent of all buildings and real estate, and about an equal proportion of investments belonged to Asians" (p. 1). For what it is worth, Bharati conducted an experiment in which he stood on a downtown street corner in Nairobi and in Dar es Salaam and counted the proportion of automobiles driven by Asians. "Eighty out of 100 cars are driven by Asians in Dar es Salaam [and] 85 in Nairobi" (p. 1).
19Dharam Chai, "Some Aspects of Income Distribution in East Africa," East African Institute of Social Research, Paper EDRP, No. 52, November 1964 estimates that approximately 60 per cent of total monetary income in Kenya in 1962 was received by Europeans and Asians which comprise about 3 per cent of the total population (p. 12). In Tanzania, Europeans and Asians comprise about 1.5 per cent of the population and earned close to 40 per cent of monetary income in 1962 (p. 16).
20See D. Chai and Y. Chai, editors, Portrait of a Minority, Nairobi, Oxford University Press, 1966.
E. Industrialization -- Pattern II

Nigeria and Uganda provide a very interesting comparison of the second pattern of industrialization -- emphasis on private enterprise combined with the use of national development corporations and other quasi-governmental bodies. Both these countries were especially favored by the boom in world prices for primary product exports which accompanied and followed World War II and the Korean War. Both were able to siphon off a good part of the windfall gains caused by favorable export prices through the device of government sponsored marketing boards which had virtual monopoly control over the purchase and export of primary commodities produced by African peasants. The prices paid by marketing boards to African growers were substantially below prices received on the world market. As a consequence, the marketing boards accumulated large surpluses which enabled the Nigerian and Ugandan governments to finance investments by the newly founded national development corporations and other quasi-governmental organizations. Here, however, the comparison ends, because the success and growth of quasi-governmental organizations in Nigeria and Uganda were vastly different.


G. Helleiner, "The Fiscal Role of Marketing Boards in Nigerian Economic Development, 1947-61," *The Economic Journal*, Vol. LXXIV, No. 295 (September 1964) discusses the role of marketing boards in financing development and the regional development corporations. From 1947/48 to 1953/54, accumulated marketing board surpluses were more than £100 million (p. 586) of which over £23 million were allocated to Regional Production Development Boards, the institutional predecessors to the Regional Development Corporations which were founded in 1954.
In Nigeria, three Regional Development Production Boards were organized in 1949, one each for the Northern, Eastern, and Western regions. The newly formed boards were financed by allocating the assets of the Nigerian Local Development Board which formerly serviced the whole country and by subventions from the surpluses of the four marketing boards, cocoa, palm oil and kernels, groundnuts, and cotton. After 1954, the regional development boards were reorganized and renamed, the Western Nigeria, Northern Nigeria and Eastern Nigeria Development Corporations. Helleiner estimates that by 1962, the total amount of capital allocated to these corporations exceeded £40 million.22

Prior to 1954, the emphasis of the Production Boards was in providing loans and grants to public authorities and direct investment in social overhead projects (education, roads, market construction, etc.) and in experimental or pilot schemes relating to crop production and processing. From 1955 onwards, however, the policy shifted to investment in commercially viable, large-scale manufacturing and agricultural establishments, often in conjunction with private capital. Furthermore, the greatest amount of the development corporations' total investment activity occurred after the 1955 shift in policy.

It is evident that the record of development corporations in Nigeria is hardly short of disastrous. Two main criticisms can be made. First, many of the presumably commercially viable enterprises have not been

profitable and many show large accumulated losses. Secondly, many of the investments of the development corporations have been made with poor planning and without proper estimates of economic viability. Very often investments are made with political patronage in mind and to the benefit primarily of powerful political figures. 23

Up to 1962, the Western Nigeria Development Corporation invested substantial sums in three different types of operations: (1) £5.8 million in large-scale commercial agricultural schemes (oil palm, rubber, cocoa, citrus, coffee, cashew nuts and pineapple), (2) £2.3 million in wholly owned and managed industrial establishments, and (3) £5.5 million (£1.3 million equity and £4.2 million loans) in associated industrial enterprises.

23 Well documented and careful appraisals of the activities of the Nigerian Development corporations are:


With regard to the agricultural schemes Teriba notes

"[They] were, for the most, undertaken haphazardly. . . . The heavy and sometimes excessive burden of overhead and infrastructural services expenditure imposed on most agricultural projects seems to suggest inadequate weighing of costs and benefits of investments in terms of alternative location. Some of these projects are still to emerge into the 'directly productive' stage from the 'development' stage in spite of 14 years of continuous investment in them. Their ability to cover capital amortization during their economic life, let alone yield dividends matching even the rate of interest usually earned on very safe investments like bank deposits or government securities, is very much in doubt. This might not have been a serious criticism if there were significant and compensating indirect benefits." 24/

Of the seven wholly owned and managed industrial enterprises invested in by the W.N.D.C. not one had accumulated profits by 1962. Accumulated losses totaled £1.2 million and £.6 million investments in the Pioneer Oil and Rice Mills scheme and a canning factory had to be written off as an almost total loss. Thus losses and capital write-offs had eaten up 78 per cent of the original investment of £2.3 million. Teriba attributes these losses to "errors of management and [over-large capacity], and as well [to] defective and poor management. Almost without exception, their central problem lay in unsteadiness or inaccessibility of required inputs from economic sources, and, hence, in under-capacity utilization. 25/

Only three of the W.N.D.C. associated companies were in full operation by 1961. Accumulated losses were only £63.5 thousand and Teriba is optimistic about their financial future. There are several things to note, however, with regard to the £4.2 million in loans to associated companies. First, many of these loans were unsecured and some were

24 O. Teriba, op. cit., p. 257.
25 Teriba, op. cit., pp. 252-254.
made without interest. Second, two of the firms, Nigeria Construction Company Limited and Nigerian Water Resources Development, Ltd., were able to obtain from the Western Region Government a guarantee of £30 million in construction contracts without being required to compete with other contractors on a bid basis and despite evidence that other contractors and the government itself could have performed a substantial proportion of this work. Finally, the Western Nigerian Development Corporation made a loan of £3 million to Nigersol and Nigerian Water Resources Development, £2.2 million of which was then loaned by the two companies to National Investment and Properties Company. This latter company was a front for the Action Group political party in the Western Region. By 1962 the company was insolvent, mainly because of subventions by one means or another of £4 million to the Action Group. Only a small portion of the loan has been paid back.

The experience of the Eastern Nigeria Development Corporation (E.N.D.C.) has been roughly similar to that of the W.N.D.C. Of a total capital expenditure of £10.7 million between 1949 and 1962 nearly half or £4.9 million was invested in wholly owned and managed commercial schemes. Only one, an oil palm estate, has accumulated any profits by 1962. Net accumulated losses by 1962 on wholly owned enterprises were £1.1 million.

Equity investments by the E.N.D.C. in associated companies were largely in the Oban Rubber Estates, the Nigeria Cement Company and the

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26 Teriba, op. cit., p. 255.
African Continental Bank. The first two of these were probably well advised.  

The latter, however, involving an equity investment of $1 million, was primarily a "bailing out operation designed to extricate the bank from the consequences of its ill-advised lending policies." It is also known that the African Continental Bank was closely linked with the governing NCNC party in the Eastern Region.

The E.N.D.C. had over $2 million loans outstanding in 1962. The largest loan was $1 million to the African Real Estate and Insurance Company. The E.N.D.C. denied the existence of this loan after it was made, and Helleiner asserts that the loan was made "under circumstances which look suspiciously similar to those in which the NIPC (National Investment and Properties Company) operated in the Western Region." Although a few of the companies receiving loans were successful, most "were, in the main, disasters as far as the Loans Department was concerned." Over 32 per cent of total payments were in arrears by 1962, while for loans to manufacturing firms, nearly 60 per cent of repayments were in arrears.

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31 Ibid.

32 Helleiner, "The Eastern Nigeria Development Corp.," p. 123.

33 Ibid., p. 118

34 Ibid.
Since 1962 and prior to the outbreak of hostilities in the Eastern Region in 1967 (although the pattern of losses of E.N.D.C. companies continued) Corporation and Government officials became increasingly concerned with the seriousness of the continued pattern of E.N.D.C. company losses. Several of the companies were reorganized to increase profitability.\(^{35}\) In order to help overcome the problems of faulty management, a School of Management Development and Productivity began operations in 1964 at the Institute of Administration in Enugu. The School worked closely with E.N.D.C. officials to train managers and consulted with the E.N.D.C. on reorganization plans.\(^{36}\)

Between 1955 and 1962, the Northern Nigeria Development Corporation received nearly £10 million in allocations from the marketing boards, the Northern Region Government, and its predecessor, the Northern Region Development Board. A good part of this (£2.2 million) was used for grants to support social overhead projects, research, and pilot schemes in agriculture and industry. Only a small investment (£0.6 million) was made in wholly owned commercial schemes. One of these, the dairy scheme at Vom, was very successful and was later sold to a private dairy company. A much larger amount (£3.7 million) was invested in associated manufacturing companies and financial institutions, including an investment bank, Northern Developments (Nigeria), Ltd. Finally, the N.R.D.C. used its capital to make loans to small businesses and local government authorities. Loans outstanding in 1962 totaled £1.8 million.\(^{37}\)

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Although Helleiner's 1963 article about the Northern Nigeria Development Corporation was optimistic about its financial prospects,\textsuperscript{38} by 1966 it was clear that the N.N.D.C. was following rather closely in the footsteps of its two Nigerian counterparts. A 1966 government White Paper came to the following conclusions:

i) of twelve wholly owned enterprises only one, the Jema Fibre Estate could be considered successful;

ii) of 27 joint ventures, only 6 were financially viable -- the failures included:

a) the cement works near Sokoto, a joint venture with a West German firm, (the local limestone was too wet for the machinery and the plant was abandoned),

b) an office building built by Arab Bros., which was sold to the N.N.D.C. for a significantly higher price than its valuation (by July 1966, 18 months after purchase, there were no rentals),

c) The Nortex Textile Mill in Kaduna which accumulated losses from its inception in 1963 of £327,000 (White Paper noted that some of the mill's machinery dated from 1896), and

d) Kaduna Hotels, Ltd., which was run at a loss by Leventis (White Paper noted that the hotels made purchases from Leventis retail outlets at no discount);

iii) of loans to individuals, which totaled £1.8 million in March 1966, about £1.4 million were outstanding and £0.8 million were overdue;

\textsuperscript{38}Ibid., p. 257. Helleiner states that although "it is too soon to say whether all of its enterprises were successful . . . there does seem to have been a remarkable absence of glaring errors."
iv) many loans and joint ventures were made under extremely questionable circumstances, including absurdly low rates of interest.

By December 1967, the N.D.D.C.'s future was in doubt, with various proposals made for its reorganization. 39

The other important public corporations in Nigeria are the Nigerian Railway Corporation, the Electricity Corporation of Nigeria, and the Nigeria Airways. The Railway Corporation has been running an overall deficit for a number of years. In addition, in recent years, the railways have failed to cover even their operating costs. 40 The major problem of the railways has been high operating costs due to poor management and overstaffing of workers, while freight traffic has met increasingly serious competition from road transport. 41

The Electricity Corporation of Nigeria (E.C.N.) has been a very profitable enterprise. Electricity output increased five-fold between 1951 and 1961 and is expected to triple between 1962 and 1968. The company has been able to finance the necessary capital expansion from Federal Government loans and borrowings from abroad. 42 The profitability of the E.C.N. is clouded by persistent evidence of faulty service and frequent interruptions of power. This sporadic power has forced Nigerian enterprises which

depend on continual service to incur higher capital costs in order to establish stand-by generating capacity. 43

Overall, the record of public enterprise in Nigeria has been rather abysmal, especially when the three Development Corporations are considered. 44 This record contrasts very strikingly with the progress of Uganda, especially in the case of the major public corporations — the Uganda Development Corporation and the Uganda Electricity Board.

The Uganda Development Corporation (U.D.C.), in which the Government of Uganda is the sole shareholder, was created in 1952 with a Share Capital of £5 million which was immediately allotted to and fully paid by the Government. The Corporation acquired Government interests in a number of enterprises which included a cement plant and the Lake Victoria Hotel. In 1955 the share capital was increased to £8 million and by the end of 1958 the Government took up and paid for further shares amounting to £1.4 million, bringing the paid up capital of the corporation to the present level of £6.4 million. Thereafter, U.D.C. has raised funds by continued policy of investing into commercially viable projects which attract foreign investment participation, and also reinvesting its net profits, coupled with sale of some of the Corporation's shares held in its profit-making subsidiary companies. 45 The consolidated profit and loss account of the U.D.C.


44 Peter Kilby, op. cit. contains an excellent and extensive discussion of public enterprise in Nigeria and comes up with similar conclusions on the basis of a much more detailed analysis than could be attempted in this short paper. Kilby attributes the failure of Nigerian public enterprise to structural impediments to competent management performance.

45 Personal correspondence with S. Nyanzi, Chairman, Uganda Development Corporation.
has shown an overall profit ever since its first full year of operation. Profits were £69,432 in 1953, reached £307,211 in 1957 and an all-time high of £1,706,389 in 1965 (about 19 per cent of paid-up capital). Accumulated profits by 1965 totaled more than £7 million,\textsuperscript{46} and were a significant source of investment funds.

The two most profitable enterprises owned by the U.D.C. in 1965 were Nyanza Textiles (£1,027 thousand in 1966) and Uganda Cement (£542 thousand in 1966). Nyanza Textiles was purchased from the Uganda Government who bought it from Calico Printers Association. Calico Printers was retained as a managing agent.\textsuperscript{47} The fully paid, authorized capital in 1961 was £1.5 million. Accumulated losses through 1958 were £394 thousand, but a profit was made every year since then. Profits reached £225 thousand in 1959, increased every year and more than quintupled by 1966. The basic reason for this growing success was an ever increasing rate of capacity utilization. By 1964, the mills were operating on three shifts and a further expansion of capacity was completed in 1965. Nyanza Textiles has specialized in inexpensive durable cotton yard goods which have a large market in East Africa. The company seems to be tautly managed. Labor

\textsuperscript{46} Uganda Development Corporation, \textit{Annual Reports and Accounts}, 1953 to 1966.
productivity has increased very rapidly and the company has been successful, after several false starts, in training and holding middle-level supervisory personnel.48

Uganda Cement also owes its high profit return in 1966 to near full-capacity operation, although the company made profits every year since its inception. Between 1956 and 1964, annual profits were between $100 and $300 thousand, even though during most of those years, production was running at less than 50 per cent of capacity.49

Other profitable enterprises of the Uganda Development Corporation include Agricultural Enterprises, Uganda Hotels, and Uganda Consolidated Properties. Agricultural Enterprises is itself a holding corporation for subsidiaries operating commercial schemes in agriculture. Agricultural Enterprises largest interests are in tea, owning tea processing factories which together have planted over 7,600 acres of estate tea. Most of the tea leaves, however, are soon to be obtained from peasant outgrowers. The outgrower scheme expanded very rapidly between 1962 and 1965; the number of stumps given to outgrowers increased more than twelve-fold from 307 thousand to 3.7 million.50 Although only mildly profitable to Agricultural Enterprises, the tea scheme has been immensely profitable for the peasant outgrowers (whose accounts, of course, are not consolidated with those of the

48 Azarias Barya, "Factors Affecting Industrial Employment, Case Study No. 1, Nyarza Textiles," Kampala, East African Institute of Social Research, Paper EDRP No. 69. Barya estimates that between 1960 and 1964, labor productivity increased at a phenomenal rate of 12.2 per cent per annum.

49 Uganda Development Corporation, Annual Reports and Accounts, 1956 to 1964.

UDC, many of whom receive financing from Agricultural Enterprises during the three-year waiting period which is required for tea to begin bearing a significant amount of leaves. 51

In 1964, Uganda had a total of 26,000 acres planted in tea, much of it was not fully mature. Production in 1966 was 23 million pounds (valued at $3.4 million), a fifteen-fold increase over 1946. Tea production is expected to reach 42 million pounds by 1971, most of the increase in production resulting from UDC's Agricultural Enterprises.

Between 1958 and 1964, the value of tea exports more than doubled, from £1.0 million to £2.2 million. The value of exports in 1971 should be about £6 million if current prices hold. 52 Thus tea will probably become one of Uganda's major export crops, providing some welcome diversification for a country in which 75 per cent of export earnings are attributable to cotton and coffee alone. 53

Agricultural Enterprises' other main operation is a 100,000 acre cattle ranching scheme begun in 1956. This scheme has been unsuccessful to date because of reinestestation of the area by the tsetse fly. 54 The scheme, however, is being resuscitated along with plans for an integrated meat industry.

Uganda Hotels and Uganda Consolidated Properties have been consistent profit makers for the U.D.C. Uganda Hotels runs a chain of hotels throughout Uganda, catering to the tourist trade and traveling businessmen.


53 Total exports in 1965 were £62.7 million of which £30.4 million were coffee and £16.8 million cotton. See Government of Uganda, op. cit., p. 1

and government officials. The standard of service is quite high and the operation has been consistently, albeit modestly (£10 to £40 thousand per year) profitable, with the exception of a single year, 1959. Another indicator of the success of the hotel services is the rapid rise in the number of tourists in Uganda.

Uganda Consolidated Properties had a record of consistently rising profits, £23.2 thousand in 1956 to £103.1 thousand in 1965, although profits dropped slightly in 1966. "Its assets consist of a long term lease-hold properties" which it leases mainly to UDC subsidiary companies. Its "financial position appears sound." The only notable failure of the UDC, other than the cattle ranching scheme seems to be the Uganda Metal Products and Enameling Company which has found it difficult to compete with imports of cheap enamelware from the Far East. After some initial losses in the early years (£34 thousand in 1958), Uganda Metal Products made a large profit in 1959 (over £30 thousand) because the imposition of stiff import duties enabled the company to raise its prices. The profit has been declining ever since 1959, however, and turned into a small loss in 1965. In 1966, the company was drastically reorganized in an attempt to reduce its high costs of production, and a small profit appeared.

58 Quotes from The Economic Development of Uganda, op. cit., p. 276.
59 Ibid.
Some more recent UDC enterprises include a meat packing factory, a dairy scheme, and cattle feed production in conjunction with plans for extension of cattle ranching. Tororo Industrial Chemicals and Fertilizers produces high quality single-phosphate fertilizer and will begin producing triple-superphosphate fertilizer as well as sulphuric acid and other chemicals as by-products, using as raw materials the high grade phosphate ores found in the Toro area. Other new enterprises include a distillery; expansion of tourist facilities in the new national park in Northern Uganda; and a steel rolling mill, using scrap as raw material.\textsuperscript{57} The steel mill has been in production a few years but has been operating at a very low level of capacity due to technical problems, difficulties in training labor, and the low level of demand for construction materials in recent years. The management claimed to have solved the technical problems by late 1965\textsuperscript{58} and the level of demand began picking up considerably as the result of the export boom in 1964 and 1965.

The other main public corporation in East Africa is the Uganda Electricity Board (UEB). The UEB was established in 1947. In 1954, the Owen Falls hydroelectric scheme became the UEB's main source of energy. The Owen Falls scheme had a potential capacity of 150,000 kilowatts but initially only two generators were installed with a total capacity of 30,000 kilowatts. In 1966, the ninth generating unit was installed bringing capacity up to 135,000 kilowatts and plans were being made for a second hydro scheme which would increase total capacity significantly.\textsuperscript{59}

\textsuperscript{57}Uganda Development Corporation, \textit{Annual Report and Accounts}, 1965, pp. 1-2.
\textsuperscript{58}Ibid.
\textsuperscript{59}Uganda Electricity Board \textit{Annual Reports and Accounts}, 1956 and 1965.
Unfortunately, the demand for electricity did not rise as rapidly as had been expected (although revenue more than tripled between 1954 and 1962 from £0.7 million to £2.4 million). Substantial losses were made because of the low rate of potential capacity utilization. Capital charges in 1960 (interest and depreciation) were £1.66 million and revenue (£1.67 million) was barely large enough to cover these charges much less the operating expenditures. Furthermore, capital charges were rising since much of the original financing was in short or medium term loans which had to be refinanced at higher rates of interest.  

The problem of unexpectedly slow growth in demand coupled with high capital charges was attacked in two ways. In 1955, a 50-year agreement was concluded with Kenya to purchase bulk supplies of electricity. The bulk supplies were purchased at a much lower per unit price than for other consumers but Kenya contracted to pay for a minimum number of units (the equivalent of 30,000 kilowatts of capacity). Furthermore, Kenya agreed to pay three times the base price for units generated above 26,000 kilowatts. Uganda was required to supply 45,000 kilowatts to Kenya on demand, but this is to be reduced to 30,000 in 1968 when Kenya's large hydroelectric scheme at Seven Forks comes on line. This agreement with Kenya eased the UEB's financial position. As long as Uganda's demand was less than potential

60 The Economic Development of Uganda, op. cit., p. 340. Part of the losses during the years up until 1960 were hidden in the accounts of the UEB through an accounting device in which a portion (22 per cent in 1960) of the interest charges were charged to the capital account. One of the conditions under which the World Bank and the United Kingdom Treasury loaned £5.5 million to the UEB was that this accounting practice be dropped. The result was that a small surplus in 1961 was converted to a deficit of £359.4 thousand. See Uganda Electricity Board, Annual Report and Accounts, 1961, p. 61.

capacity, the cost of generating these bulk supplies was considerably below the revenue obtained from Kenya. As the Uganda demand nears capacity, however, the low price paid by Kenya reduces the revenue the UEB might obtain from supplying Uganda consumers at higher prices. Furthermore, the provision of bulk supplies to Kenya will probably force the UEB to engage in a second hydroelectric scheme at an earlier date than would otherwise be the case. This would involve additional capital expenditures of at least £10 million and add to the UEB's capital charges.

The second approach to UEB's financial problems was to obtain a loan in 1961 of £5.5 million from the World Bank and the United Kingdom treasury. This was to enable the UEB to pay off the capital charges not met out of current revenues and to engage in some needed capital expansion, especially of transmission facilities. In conjunction with this loan, tariff charges were raised an average of 13 per cent in the hope that the UEB would soon be able to carry the capital charges on its own and eventually build up a fund for capital expansion out of its profits. By 1963, accumulated losses were £781 thousand. In 1964 a small profit was made and in 1965 profits totaled £377 thousand. The accumulated loss dropped to £332 thousand and was expected to be eliminated in 1966. 62 The profit outlook is very favorable for 1966 onward until the next major new expansion in hydroelectric capacity is undertaken. The much more favorable profit

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picture since 1964 has been to a large extent the result of a boom in
the Uganda economy. Export revenue which had been falling from 1958
rose from £37.6 million in 1962 to £51.5 million in 1963 and
£64.4 million in 1964. UEB revenues increased by 12.6 per cent in
1963, 9.5 per cent in 1964 and 14.2 per cent in 1965. Peak demand
as a percent of capacity increased substantially.64

Most of the UEB's troubles can be attributed to the fact
that its major hydroelectric installation came on line at the peak
of a booming export economy and suffered through its first eight
years, a fairly severe period of economic stagnation. This made
it difficult to cover its high fixed charges. Its more recent
financial success is probably more indicative of its viability. There
are relatively few complaints about its services and it is generally
agreed that the company is well managed.

The Uganda Government, in addition to the UDC and the UEB,
has interests in three other major public enterprises, namely, the East
African Railways and Harbours, the Airways, and Posts and Tele-
communications, all of them self-contained services of the East
African Common Services Organization.

The railways, as in Nigeria, have suffered from severe competi-
tion from road transport firms, although various licensing regulations
have protected the railways from some of this competition.65 Railway

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63 Government of Uganda, op. cit., p. 1
65 See Arthur Hazlewood, Rail and Road in East Africa, Oxford,
officials claim, however, that were road transporters charged fully for the services of the road network and were the railways allowed more flexibility in setting tariffs to meet competition, then road transport licensing would not be necessary. 66

The railways have run an operating surplus every year from its beginning in 1948 when the Kenya-Uganda Railways and Harbours and Tanganyika Railways and Ports merged to form the East African Railways and Harbours Administration. Operating surpluses have averaged about £3.7 million between 1948 and 1963, enough to cover an annual contribution for depreciation which has averaged about £2.5 million. 67 Unfortunately, however, much of the railways rolling stock and locomotives, purchased in the 1920's, were in need of replacement in 1963 and the railways found it difficult to raise the capital and expand quickly enough to meet growing traffic demands. 68 In addition, the railways embarked on a massive training and promotion scheme to Africanize its staff. 69 The heavy costs of Africanization and the needs for rolling stock replacement put the railways' future financial success in some doubt.

66 Hazlewood, op. cit., Chapter VI, pp. 58-81.


The East African Airways has been one of the few profit making national airlines. It has run an operating surplus since 1955 and an overall profit from 1959 through 1963 (despite a very rapid writeoff on four Comet jets purchased in 1960). Accumulated profits between 1959 and 1965 were £1.5 million.\(^{70}\)

All three of the Common Services Organizations have demonstrated remarkable growth in the recent past. Revenues of the Railways and Harbours nearly tripled between 1948 and 1963, from £9.4 million to £27.3 million.\(^{71}\) In 1946, the East African Airways flew -.6 million aircraft miles and 7.7 million in 1963. Total revenues rose from £86,000 to £7.6 million.\(^{72}\) The East African Posts and Telecommunications serviced 14,839 telephones in 1948 and 83,234 in 1963. The postal services handled 62.3 million pieces of mail in 1948 and 140.1 million in 1963.\(^{73}\)

"Perhaps the most significant achievement of the transport and communications services is to be found in their successful borrowing program. The interest-bearing capital of the EARH (East African Railways and Harbours) has been raised from a variety of sources including the World Bank (£6.3 million)..."\(^{74}\) The financial soundness of these organizations has been a major factor in enabling them to raise such significant amounts of capital.

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\(^{73}\) Ibid.

\(^{74}\) Proctor and Krishna, *op. cit.*, p. 533.
Uganda's public corporations and those of the East African Common Services stand as a model of successful use of public enterprises in pursuing economic development objectives. Their efforts were supplemented by a few Asian entrepreneurs who made large profits in sugar estates and sugar refining (most notably Muljibhai Madhvani & Sons) which they used to invest in a wide range of industrial and commercial agriculture schemes, some in conjunction with the UDC. The African private entrepreneur, however, has been singularly absent as a major factor in Uganda's growth and development. This is not the case in Nigeria. Where public enterprise failed, private entrepreneurs of all sorts, European, residents of Near Eastern origin, and Africans (albeit on a smaller scale than the others), expanded their activities extremely rapidly. Between 1958 and 1963, value added (in 1957 prices) in the manufacturing and public utilities sector of the Nigerian economy increased from £25.4 million to £49.1 million, an impressive average annual rate of 14.1 per cent per annum. 75

F. Industrialization - Pattern III, Heavy Reliance on State Enterprise.

Prior to 1960, the scope of government enterprise in Ghana was quite limited. Government activity was confined to public utility undertakings, the export of cocoa, a few industrial schemes under the segis of the Ghana Industrial Development Corporation, and several commercial agriculture schemes by the Agricultural Development Corporation. With the launching of the second five-year development plan in March 1959, government activity in directly productive enterprises began to increase

substantially. By mid-1964, the government had set up 37 state-owned establishments and obtained ownership shares in nine others. By 1966, the number of state enterprises had grown to 54 and there were 12 joint state/private establishments. The gross output of state-owned firms increased from £13.6 million in 1962 to £21.4 million in 1965, an increase of 58 per cent. Gross output of joint enterprises more than doubled, from £2.5 million to £6.0 million.

By the end of 1964, 32 of Ghana's 35 state enterprises, representing an investment of £39.7 million, had accumulated losses of £15.1 million (three had not reported). There were only three profitable ventures: the Bank of Ghana, Ghana Commercial Bank, and Ghana National Trading Corporation. The three heaviest losers, accounting for £13.5 million in losses, were the State Mining Corporation, Ghana Airways and the State Farmers' Corp. The state enterprises also proved a significant drain on foreign exchange, accounting for £53 million of £80 million foreign debt as of June 1964.

The eight joint state/private enterprises did not do so badly. Only one, the Ghana Bottling Company, lost money in 1964. Total profits for the eight companies were £586 thousand.

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77 The Economist Intelligence Unit, Quarterly Economic Review, January 1967, p. 5.
80 Ibid., March 20, 1965, p. 419.
Concern over the lack of financial viability led to the establishment of a State Enterprises Secretariat in April 1964. The Secretariat was empowered to supervise closely the state corporations in order to increase their profitability and to look after the government's interests in joint enterprises. By 1966 some 22 state corporations were under the aegis of the Secretariat.

In order to help overcome the problem of poor management, the Secretariat instituted a series of courses and seminars for management and supervisory staff. For some establishments, especially those which had severe technical problems, special managing agents were hired. Many of the state enterprises responsible to the Secretariat began to make some profits. Many others were able to reduce losses or about break even.

Of the 15 companies reporting in 1963, 11 made losses of £254 thousand and 4 made profits of £219 thousand for a net loss of £35 thousand. In 1965, of these same 15 companies (1964 in the case of two which were late in reporting for 1965), nine made profits of £425 thousand and six made losses of £286 thousand for a net profit of £139 thousand.

It is easy to exaggerate the poor record of state enterprises in Ghana. One of the reasons for large accumulated losses in the last few years has been that a large proportion of the state firms had just begun operations. Losses in the development stage are typical of most new enterprises. Many of the early losers are now showing an encouraging trend toward profitability. What is evident, however, is that Ghana's emphasis on state enterprise had produced no big winners to date and a number of outstanding big losers. The Ghana Airways (which made a loss of £7 million to 1965\textsuperscript{80}), the State Mining Corporation (a loss of over £6 million to 1963\textsuperscript{81}) and the State Farms Corporation perennially made

\textsuperscript{80} West Africa, July 9, 1966, p. 772.
\textsuperscript{81} Ibid.
such large losses that they overshadow the relative success of a number of the smaller enterprises. Other relatively large losers include the Fibre Bag Manufacturing Corporation (losses of £438 thousand between 1963 and 1965), the Furniture and Joinery Corporation (accumulated losses of £53 thousand to 1964), the C anxious Corporation (£95,000 by December 1965), the Moaryards Corporation (£70,000 through 1965), the Bakery Corporation (£35,000 through 1965), and the Marble Works Corporation (about £55,000 accumulated losses).

Some of the companies reporting profits have been called into question regarding the accuracy of the accounts, bribes, and possible fraud. The Ghana National Trading Corporation reported a profit of £1.3 million in 1965 but was in arrears for a large proportion of its outstanding debt and was under investigation by a Commission of Inquiry for alleged illegalities involving the sale of Leventis Company to the Corporation. The Ghana National Construction Company showed a net profit in 1963 of £176 thousand but was substantially in arrears on debt repayment. 38

The National Liberation Council which succeeded Nkrumah in 1966 has taken some rather drastic steps to reverse the policies of the former regime. First, a number of the state enterprises are to be sold to private firms. \(^{89}\) Secondly, to correct some of the more blatant overstaffing problems, workers are being laid off at a rapid pace. Between February and December of 1966, approximately 47,000 workers were laid off, about one-seventh of all recorded employment. Most of the layoffs occurred in the public sector, e.g.,

i) 16,000 in National Construction,

ii) 9,600 in Workers Brigade,

iii) 9,000 in State Farms,

iv) 2,300 in State Housing Corp., and

v) 1,200 in Cocoa Division of Ministry of Agriculture. \(^{90}\)

Finally, the control of state enterprises through the State Enterprises Secretariat will tighten. Eventually, the Secretariat may be converted into a holding company much like the Industrial Development Corporation which had been liquidated in 1962.


A. Profitability as a Criterion

In the discussion up to this point, we implicitly assumed that profitability is a measure of the success of a public enterprise. This needs some justification since there is a wide divergence of opinion as to whether profitability is a meaningful criterion of success for a state enterprise.

There are several arguments against the use of profitability as a criterion. First, the non-measurable social benefits of a scheme must be taken into account. This argument is particularly cogent for projects such as roads, hospitals, education, for which it is either impossible or repugnant to specify and charge a price for the services of the project which reflects their social usefulness. For industrial and commercial projects, however, the problem is not as acute. Although some non-measurable benefits may exist, it is often difficult to identify them adequately. Furthermore, the case for choosing a non-profitable project rests on a demonstration that the non-measurable benefits of a less profitable project are considerably greater than for a profitable one. The mere existence of non-measurable benefits is not enough.

Secondly, the prices paid for certain inputs often are not a reflection of their true scarcity value. Wages may be higher than the true scarcity value of unskilled labor because of union demands, minimum wage legislation, or government pressures for wage increases. The cost of imported goods is often too low because of an undervalued foreign exchange rate, the symptom of which is a chronic tendency toward balance of payments deficits. In these cases, use of the profitability criterion may lead to an uneconomic
allocation of resources. Labor is used less abundantly than desirable since, although labor is in plentiful supply, its price is high, and profitability can be enhanced by conserving on labor inputs. Imported materials and capital equipment may be used when it would be more economic to use domestic supplies. In some instances, however, attempts to take into account these divergencies between actual prices and scarcity values have resulted in very marginal changes or no changes at all in the ranking of projects. 87

Finally, there is a set of arguments related to the time required for an enterprise or group of enterprises to enter the stage at which profits can be made. First, current market prices of the products and inputs of an enterprise do not necessarily reflect future profitability. The future prices of goods and services depend on how rapidly demand is rising and how rapidly increased supplies are available from all sources. An enterprise which is initially unprofitable may become profitable later. The natural question which arises is: why not wait to make the investment until profitability is assured? This may not be feasible if some investments are very "lumpy." The success of an investment may be dependent on other investments being made. It may not be possible to make them all at one time because of the limited availability of capital. 88 Thus some enterprises will be forced to make losses until the entire investment program is implemented. This argument depends crucially on the degree of lumpiness of investment (returns to scale) and while it may make sense for some small countries, its application is limited in large countries with extensive markets for final goods and a sizable absolute capacity for mobilizing investment funds.

The most cogent argument for losses in the early stages of an enterprise's development is that the enterprise requires an initial testing and learning stage. Both management and labor have to become familiar with their roles, learn the consequences of their actions and decisions, experiment with different forms of organization, and adapt to unforeseen difficulties which could not possibly be predicted beforehand. This argument can be applied to groups of enterprises, particularly those in a given industry. A labor force must be trained, entrepreneurial and managerial abilities given a chance to grow, and experience accumulated before an industry can hope to be profitable.

While one may reasonably expect some enterprises to make losses for a time, especially those which are subject to economies of scale or those for which a trained labor force and entrepreneurial experience is necessary, this factor can be taken into account by a reasonable method of discounting the future stream of expected losses and profits. Persistent and significant losses, however, can have an extremely deleterious effect on the prospects for development. It is not easy or costless for the government to raise funds (and to achieve the command over real resources they represent) for purposes of investment. Private savings rates in less developed countries are low. Governments' taxing and borrowing capabilities are limited. Taxation is administratively difficult, costly and politically sensitive.

The use of inflation as a means of raising investment funds is limited either because continuing inflation defeats its own purposes as those whose real incomes are being reduced by inflation are able to raise money incomes and reduce savings, or because balance of payments difficulties emerge.
When state enterprises make losses, they must obtain government loans and subsidies, the funds for which are diverted from other uses. When state enterprises make profits they are able either to expand on their own, without government funds, or to make contributions to government revenues. Even if state enterprises make profits merely because of their monopoly powers or high protective tariffs, these profits can add to the total availability of investible funds. Such funds are not costless, of course, since the consumers and users of the product are, in effect, being taxed through high prices, and resources probably are not being allocated most efficiently. Provided, however, that the return on investments financed in this manner are higher than the costs, the profits are justified. 89

B. Causes of Lack of Profitability.

A perusal of the literature cited in this paper indicates that the basic cause of lack of success of state enterprise is poor management and administration. This basic cause evidences itself in several ways. First, many enterprises fail because of inadequate planning and feasibility studies. Demand for the product is overestimated. Improper machinery and equipment is ordered. Plant layout is inadequate. The wrong location

is chosen. An uneven and inadequate supply of raw materials of sufficient quality is not forthcoming.

Second, the operating managers and supervisors often lack organizational talent. They tend to overstaff. They sometimes do not have the proper technical competence.

Third, at times lack of success may be attributed to the inefficiency of a government bureaucracy and elected officials. Restrictions may be placed on the prices of products and conditions of sale. Licenses for crucial imported materials may be delayed or not granted because of organizational inefficiency or failure to realize the implications of such delays and refusals. The same delay may be true for permits to hire expatriate technical help.

Although one can identify lack of managerial, administrative and supervisory talent as the cause of inefficiency of government enterprise, it is important to go beyond this and inquire about the factors which are responsible for this lack of ability in state enterprises. Otherwise one might jump immediately to a simplistic policy conclusion that the only way to overcome this deficiency is to embark immediately on large-scale, massive training and educational programs. The degree of success of state enterprise in Uganda, where the overall supply of people with the necessary abilities is certainly more limited than in Nigeria and Ghana, indicates that a crash program is neither necessary nor sufficient. The political milieu in which state enterprises operate is probably far more important.

The three cases of Ghana, Nigeria and Uganda have to be dealt with separately since different political factors were operating in each. In Ghana, Nkrumah was able to build and maintain power for
some time by an appeal to mass popular support. In this process, he more or less disenfranchised and alienated a significant number of sophisticated, once powerful, political and intellectual elites. This made it even more imperative for him to consolidate and strengthen his mass support. The impact of this political necessity on policies toward public enterprise was two-fold. First, projects tended to be visible, impressive, and reflect nationalistic aspirations. Thus the Ghana Airways were to be "the Great Airline of Africa" and the State Farm Corporation was to serve as a demonstration of the government's attempt to spur an agricultural revolution.\(^94\) Second, state enterprises were intended to generate mass employment opportunities. This was particularly true of the State Mining Corporation.\(^95\) The concern with project visibility and employment generation conflicted with the desire for profitable operation of state enterprises.

In Uganda, public enterprise grew and reached a high degree of prestige and importance before independence from Britain and before political awareness and competition reached its zenith.\(^96\) The colonial regime was able to operate the enterprises on the basis of "sound business principles," and could hire managers and skilled manpower regardless of their nationality, tribe, or political viewpoint without fear of vast political repercussions. Although Uganda attained self-government in the early 1960's, the public enterprise pattern of success, autonomy, and exclusion from the political arena had been set. There is little recent indication that public enterprises have come under control.


\(^95\)Ibid.

\(^96\)Uganda attained independence in 1963. In contrast Nigeria and Ghana began moving toward political self-government early, roughly since 1951 in Ghana and 1953 in Nigeria.
of the government and politicians to the same extent as in Ghana and
Nigeria. If this pattern continues, then Ugandan public enterprises
have a reasonable prospect of continued successful operation.

Nigeria began to move toward self-government in 1953 and
had a plethora of able politicians; alliances and coalitions of
individuals and groups have shifted frequently. Internal political
struggles have been complicated by political rivalries among the regions.
Individual Nigerian politicians have not been able to consolidate
power for any long period of time. 97

In such a milieu of vigorous political competition, political
power may reward allies or buy off potential rivals with sinecures in
government enterprises. Honesty and managerial competence often have
little correlation with political perspicacity. A politician in an executive
capacity has control over funds for the party or his wing of the party
and may use them as an instrument for political patronage; hence
the tendency for corruption and overstaffing. He may interpret the
national interest in his own interest. He may be reluctant to enhance
the success of the enterprise by employing managing consultants from
abroad, if this subjects him to charges by his opponents that he is
abandoning nationalistic principles. He may view joint ventures with
other firms, foreign or domestic, as a method of making political allies
rather than as a means of injecting needed resources and talents into a
state enterprise. 98

97 For an excellent discussion of West African politics, see W. Arthur
especially pp. 13-36.

98 This is not to deny the possible necessity for patronage of various
kinds (possibly including graft and corruption) in order to maintain
reasonably stable political structures. The relevant question is whether
patronage of a form which destroys the economic effectiveness of directly
productive government enterprises is not too costly a way to build
political structures when alternative forms of patronage may exist.
C. The Role of Public Enterprise

If political rivalry is fierce, it may be desirable to limit the role of public enterprise, unless its political autonomy can be assured by some means. There are certain industries, however, such as electricity, water supplies, rail transport, communications and heavy industry, where large-scale operations are clearly more efficient. One of the salient features of indigenously run enterprises in Africa is their small-scale and the reluctance and inability of entrepreneurs to extend their operations beyond that which they or their extended family can exercise close control.

Thus when large-scale, modern establishments are substantially more economical, the role of public corporations may be dominant. The problem remains, however, of determining institutional forms which effectively insulate the management and administration from the political arena.

In those countries where indigenous entrepreneurs are lacking and/or where political control is more certain, the role of the public corporation can be more considerable. The state enterprise can be a vehicle for the training of indigenous managers, administrators, and entrepreneurs. The public corporation, if it is profitable, can be a means of accumulating investible funds which are less likely to be sent abroad than is the case with profits of foreign firms or those run by non-indigenous entrepreneurs. If profitable, the public enterprise can secure loan capital from foreign governments, multilateral aid-giving organizations, and private investors. In its response to profitable investment opportunities, the public enterprise can mitigate the degree of dependence on foreign-owned firms and increase the role of indigenously controlled institutions in the economy of the country.

99/It may or may not be possible to protect public enterprise from being used excessively as devices for political patronage. This is a question which has been debated quite extensively in the literature on state enterprises in developed as well as less developed countries, and there does not seem to be any easy answer.

The role of the public corporations in training indigenous managerial personnel should not be under-emphasized. This training function, however, is not performed without costs in terms of possible losses or lowered profitability. The judicious use of foreign managing agents or joint ventures can often reduce these costs.

One of the main implications of the case studies above is that joint state/private enterprises are more often profitable than wholly owned state enterprises. This may be because the private investors provide some managerial abilities. More important, however, is the fact that private entrepreneurs are less likely to invest in potentially non-profitable projects. Thus, ability to attract private investors may be one criterion to aid public corporations in choosing profitable investment opportunities.

D. The Role of Indigenous, Private Enterprise

The indigenous private sector in African economies performs several functions. First, its contribution to total output is substantial. Nationalization of the thousands of small-scale enterprises would significantly reduce this contribution, since African governments lack the ability to administer and manage such a wide range of activities.

Second, a thriving private sector is able to mobilize significant entrepreneurial talent which governments could not hope to identify by any other means. Those who respond most vigorously to economic opportunities in the private sector are often the most motivated and capable managers and entrepreneurs. Reinvested profits enable the successful entrepreneurs to expand rapidly and increase their control of economic activities.
Third, a vigorous private sector is a training ground for entrepreneurs and managers. The profits or losses of an operation provide important learning feedbacks. If certain measures increase efficiency and and raise profits, then the private entrepreneur has an incentive to continue along the same line of action; losses act as a signal and incentive to try something different. The profit motive is also an important stimulator of innovation.

Finally, the small-scale, indigenous entrepreneur generally pays lower wages than a large-scale modern firm, and he can be more flexible in his hiring practices and in adjusting hours worked to the needs of his enterprise. He also pays a higher price for his capital. This makes it profitable for him to use more labor intensive and less capital intensive techniques of production than the large-scale modern establishment. In view of the increasing problem of urban unemployment in African countries, the further encouragement of a labor absorbing, small-scale, indigenous sector seems particularly attractive.

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96 Estimates by P. Kilby (Development of Small Industry in Eastern Nigeria, p. 5) for Eastern Nigeria and by the National Manpower Board for other areas of Nigeria indicate that investment per worker in small-scale indigenous firms is in the range of £100 to £200. In large scale establishments, the average ratio is £2,000 to £3,000 per worker. For example, analysis of the data in Industrial Survey of Nigeria, 1963, Lagos, Federal Office of Statistics, 1966, indicates that paid-up capital alone (excluding debt financed investment) amounts to about £1700 per worker in manufacturing. A forthcoming study by T.M. Yesufu reveals that the investment per worker in selected current and prospective development projects in Nigeria ranges from £1700 to £34,000. A survey conducted by the East African Manufacturers Association with 38 responses indicated a total paid-up capital of £44 million and 19,626 workers (an average of over £2200 per worker with a range of £1000 to £50,000 over the 38 establishments).


What are the ways to encourage the growth of the small-scale private sector? The proposals made most often are a) loan schemes for small-scale entrepreneurs; b) technical aid and advice, possibly in conjunction with loans; and c) managerial training schemes. Loan schemes are often unsuccessful because of the high cost of identifying worthwhile loan applicants and the high administrative costs of small-loan schemes. 106

Technical aid to small-scale producers is often ineffective because aid recipients are not willing to take the advice offered them, in many cases, since the particular type of advice given is "not what they most need." 107 Technical aid to small producers is extremely costly. If the aid specialist is to be effective he must become very familiar with the firm's operations and problems. This requires a significant investment of the specialist's time, and the specialist's annual salary frequently may be several times the annual net output of the enterprise.

Training people to become competent managers is not simple, but training schemes can and have been effective. Experience on the job, temperament, and character, however, are probably just as much if not more important than learning management tricks and techniques. 108

Training, loan schemes, and technical aid, despite their costliness, can and should play some role at least in the development of indigenous entrepreneurs. The simplest and most effective way to train small-scale

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entrepreneurs, however, is to provide profitable opportunities for investment. Although social and cultural factors play a role in inhibiting response to economic opportunities, there always seem to be some aberrant individuals, tribes, or social groups, perhaps a very small minority, who do invest when profitable economic opportunities arise. The rapid growth of cash crop agriculture in Africa, and the emergence of a vigorous small-scales manufacturing sector in Nigeria (especially after the introduction of protective tariffs which greatly increased the profitability of many lines of activity) testify to the existence of a latent response which became released when profitable opportunities arose. Papanek and others have noted a similar phenomenon in Pakistan where the imposition of high tariffs after partition eventually induced phenomenal growth in the indigenous private sector, and where the introduction of tube wells into agriculture spread rapidly and stimulated the industries which could manufacture and service the tube well equipment.

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102 A notable example of differential response to economic opportunity is the contrast between the Chagga and the Masai, neighboring tribes in the Kilimanjaro region of Tanganyika (now Tanzania). The pastoralist Masai changed very little under the impact of modernizing influences introduced in the last half-century. The Chagga, on the other hand, have invested heavily in the growing of Arabica coffees on the slopes of the mountain. The Chagga also formed, on their own initiative, a successful cooperative for purchasing, grading, processing, distribution, and sale of the coffee. See Kathleen M. Stahl, The History of the Chagga People of Kilimanjaro, London, Nouton, 1964.

Those who make the initial response to economic opportunities, if their efforts are rewarded by profits, will expand their operations and inspire imitators. The imitators often are closely related by social and cultural ties to the successful entrepreneurs. (Thus the tendency for certain social and ethnic groups to have an undue proportion of successful entrepreneurs). As long as profitable opportunities remain or others arise, the growth process is maintained and tends to accelerate. Entrepreneurial and managerial experience widens. Social and cultural inhibitions diminish with repeated exposure to profitable opportunities. Social norms and attitudes may change in response to the needs of successful operation of business. At some point, the choice of socialism or free enterprise becomes more meaningful as the society acquires a significant number of able entrepreneurs, managers, and administrators. In the meantime, however, the dictates of growth may require a significant role for private enterprise.

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111 Schumpeter's emphasis on the pathological nature of original entrepreneurship and the importance of imitators applies as well to the less developed areas of Africa as he meant it to apply to the Western world. See J. A. Schumpeter, The Theory of Economic Development, Cambridge, Harvard University Press, 1934, pp. 74-94 and 228-30.