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THE PERFORMANCE OF PUBLIC ENTERPRISES IN SOUTH AFRICA, ZAMBIA AND ZIMBABWE DURING THE LAST TWO DECADES

1. Introduction

In the literature on the economics of less developed countries ("LDCs"), the role of the state in economic development has been substantially devalued over the last two decades. On the other hand, the 1990s have heralded a less hostile view of the state's involvement in the economy than that which prevailed in the previous decade. The World Bank's 1991 World Development Report attempts to summarise the professional consensus not by reference to any neoclassical writer, but by quoting Keynes: "The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."[1] The problem with this apparently unobjectionable approach is that in many LDCs a vast array of economic activities present in the industrialised nations "are not done at all." Perhaps that is why the World Bank's own interpretation of Keynes' words (which, incidentally, were obviously not intended to refer to LDCs) stretches them somewhat: "[I]ntervention by the public sector is not undesirable in itself. On the contrary, many sorts of intervention are essential if economies are to achieve their full potential. An abbreviated list of indispensable interventions would include the maintenance of law and order, the provision of public goods, investments in human capital, the construction and repair of physical infrastructure, and the protection of the environment. In all these areas (and arguably more) markets 'fail' and the government must step in. But the countless cases of unsuccessful intervention suggest the need for caution. Markets fail, but so do governments. To justify intervention it is not enough to know that the market is failing; it is also necessary to be confident that the government can do better."[2]

The mere fact that countries in Sub-Saharan Africa ("Africa") are relatively underdeveloped would thus lead one to expect greater state involvement in the economy. And, indeed, this is the essence of Gerschenkron's notion of institutional substitutability. As Iliffe puts Gerschenkron's argument, "[t]he later a country industrialise[s], ... the more politically directed [is] its industrial

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[1]The World Bank, World Development Report 1991 (Washington, D.C. 1991), p.128.

[2]Ibid., p.131.

revolution."[3] Taking the thesis down to the country level, one would expect significantly less state involvement in Zimbabwe than in Zambia, and somewhat less in South Africa than in Zimbabwe. We shall see how these predictions square with the experience of South Africa, Zambia and Zimbabwe (collectively, the "Region") over the last two decades when we turn to some of the evidence in Section 5 below. The Gerschenkronian argument raises several questions and some of these are worth considering in light of experience in the Region: Is there a natural tendency for the role of the state in the economy to diminish as a country becomes more industrialised, independent of how late the country began its process of industrialisation and how involved the state was in that process to begin with? If not, should such a "withering away" of the state be encouraged in the later stages of industrialisation in order for the process to continue? If so, what is the appropriate stage of industrialisation at which this should occur? These themes are present, albeit implicitly, throughout much of this paper. Their economic policy aspects, including policy experience in the Region during the 1980s, are more explicitly dealt with in Sections 8 and 9 below.

How does one evaluate the effects of state intervention in the economy? While the Gerschenkronian and 1991 World Bank analyses may lead us to expect a large degree of state intervention in African economies, the appropriate extent of that intervention is impossible to define a priori. Moreover, many interventions by the state have non-commercial objectives (the promotion of inter-regional or inter-personal income equality, for example) and their impact is difficult to measure. We should, however, expect that African states will be heavily involved in business activities that in more developed economies would be undertaken by capitalists. When it comes to those activities, it becomes feasible and interesting to ask questions about their financial performance. Are they profitable, and have they become more or less so over time? How have the actions of policy makers affected their performance? What does this suggest for policy in the future? Even though criteria relating to financial performance are clearly not the only ones to be considered in the evaluation of state-run businesses (as mentioned earlier in this paragraph and as we shall see below, especially in Sections 2 and 3), they must play a central part therein. In this way it becomes possible to ask whether business conducted by the state can be more efficiently run or, indeed, whether it is socially desirable to encourage the private sector to undertake such business instead.

In performing such an assessment, the ideal technique would be to evaluate each "state-owned enterprise" or "public enterprise" ("PE") separately. But, as we shall see, the data is simply not available for such scrutiny. A starting point on this route is, however, to attempt to build an aggregate picture of the PE sector in a country and make some judgments about its performance. In the process, one of

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[3]John Iliffe, The Emergence of African Capitalism (1983), p.64.

the benefits will be to identify data that are currently not collected but should be if individual PEs and hence also PE sectors are to be adequately monitored and evaluated. At the same time, we can make some progress toward cross-country comparisons of PE sector performance and toward comparisons of PE sector and private sector performance. These are the directions in which this paper takes some preliminary steps.

The paper is organised into nine further sections. Section 2 introduces the principal topics studied in the paper. It also sets forth the rationale for the choice of period under consideration and raises some issues concerning the differences in experience between the 1970s and the 1980s, the latter being a theme picked up throughout the paper. Section 3 provides an historical context for the establishment of PEs and reminds us that there are reasons unrelated to the criteria examined in this paper for such establishment. Section 4 contains some comments about the considerable limitations of the data relevant to the subject matter of the paper. Section 5 provides an overview of the size of the PE sector in the Region. Section 6 assesses the financial performance of the sector. Section 7 examines the impact of the PE sector on government finances and credit markets. Section 8 reviews the principal determinants of PE performance and describes programmes aimed at reforming the PE sector. Section 9 reviews the experience of PE reform in the Region. Section 10 contains brief concluding remarks. The Tables and Figures referred to in the text are presented at the end of the paper, followed by a Bibliography.

2. PEs in South Africa, Zimbabwe and Zambia: Issues from the Last Two Decades

PEs have made an important contribution to output, investment and employment in most African countries. Several recent studies suggest, however, that PEs have not used resources efficiently and that they have imposed a burden on public finances.[4] As Short puts it, "[t]here is a growing awareness that public enterprises can be a major source of macroeconomic problems... There is, however, a shortage of analytical work on the macroeconomic role and impact of public enterprises. A principal reason for this is the scarcity and inadequacy of data on

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[4]See, for example: John. R. Nellis, Public Enterprises in Sub-Saharan Africa (World Bank Discussion Paper Number 1, Washington, D.C. 1986); R.P. Short, "The Role of Public Enterprises: An International Statistical Comparison" in R.H. Floyd et. al. (eds.), Public Enterprises in Mixed Economies (Washington, D.C. 1984); Daniel Swanson and Teferra Wolde-Semait, Africa's Public Enterprise Sector and Evidence of Reforms (World Bank Technical Paper Number 95, Washington, D.C. 1989).

public enterprises."[5]

Short's own paper then goes on to collect available evidence on PEs in 90 countries. He concludes that "the commercial return and saving of public enterprises is generally low."[6] Nellis, and Swanson & Wolde-Semait have drawn similar conclusions for Africa as a whole. Nellis, writing about the situation in the mid-1980s, ends his paper by saying that "[t]he reform of public enterprise sectors is now everywhere in Africa a matter of the highest priority. The reform effort will be lengthy and expensive, and will demand much from both African governments and the development assistance community."[7] Writing more recently, Swanson & Wolde-Semait opine that "[o]verall, positive steps have been taken to create a sound policy environment in countries with reform programs. However, further actions are needed to improve performance and rationalize the content of the sector. Thus, continued liquidation, divestiture, and re-habilitation, as an integral part of PE sector reform, provide a dual and compatible approach. Institutional and legal reforms for the sector continue to be crucial to ensure PE autonomy and efficiency in the long term."[8]

The general issue addressed in this paper is to what extent the above shortcomings have been true of PEs in the Region. It appears that no study assessing the impact of PEs in Southern Africa has been made and this paper represents a first step towards filling that gap. The purpose of the paper is to present preliminary and tentative findings on sector size, financial flows (including PE performance and financing), resource usage, and the extent of reform efforts in the Region.

The paper looks at the financial performance of PEs in South Africa, Zimbabwe and Zambia over as much of the last two decades as data will allow. These three countries were selected both because of the large size of their economies relative to others in Southern Africa and because relatively better data are available for them. The time period was chosen because all three countries initiated efforts at reforming their PE sectors in the 1980s in response to shortcomings in performance in the context of sagging commodity prices, large increases in debt burdens and rising interest rates. It therefore seemed interesting to try and obtain sufficient evidence to judge whether the reform efforts had led to any

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[5]Short, op. cit., p.110.

[6]Ibid., p.180.

[7]Nellis, op. cit., p.65.

[8]Swanson & Wolde-Semait, op. cit., p.33.

improvements in performance.[9]

The paper sets out to answer the following two questions:

(a) How have PEs performed financially over the last two decades and what has their impact been on government finances, domestic and foreign credit supply, and resource allocation in the economies concerned?

(b) How has their performance been affected by the reform efforts of the 1980s?

In doing so, the following preliminary questions have also been considered:

(i) What is the scope of the PE sector in the Region and how has this changed over the last two decades?

(ii) What measures to reform PEs have been implemented by countries in the Region?

3. Reasons for the Establishment of PEs in the Region

"Public corporations are a direct result of growing nationalism in many developing countries. The emergence of public corporations was perhaps the most important occurrence during the twentieth century."[10] While the second sentence of this statement is obviously open to a little doubt, it is certainly true that political nationalism played a large role in the establishment of PEs in South Africa and Zambia. And in all three countries, the state has attempted to contribute to the process of industrialisation and economic growth by direct intervention in the economy.

In South Africa, the election to power of the National Party in 1948 heralded a drive for economic empowerment by Afrikaners. During the 1950s Afrikaner nationalists used their control of the state to increase their share in an expanding

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[9]Having proceeded on this basis to collect data relating essentially to the period after 1970, I was startled to discover that I could in any event not have examined much earlier information, since it generally does not exist. The earliest data point contained in Tables II to VI is for 1968, and precious few of any consequence were available to me for earlier dates.

[10]Jonathan H. Chileshe, Third World Countries and Development Options: ZAMBIA (New Delhi, 1986), p.125.

economy. Although the establishment of PEs pre-dated National Party rule, between 1946 and 1973 public sector investment rose tenfold. This vast expansion of PEs greatly assisted Afrikaner economic advancement. Afrikaners were able to use the state to create industries that would not only provide good jobs for white workers, but would also permit the marshalling of national resources by the state itself rather than by private capital (which was dominated by English-speakers). Devices such as interlocking directorates between PEs and the private sector ensured the emergence by the late 1970s of a new class of Afrikaner entrepreneurs who could compete successfully with their English-speaking peers.[11]

In Zimbabwe, as in so many other countries, the exigencies of the Second World War led to the nationalisation of industries like iron and steel in an effort to ensure that strategic supplies were delivered to the market in sufficient quantities. Zimbabwe is unusual in that many of the industries created or nationalised by the state during the Second World War were sold to more efficient private investors (often South African and British) soon after the War. On the other hand, the state did subsequently make extensive forays into areas like transport, for example by acquiring the railway system in 1947 as part of a policy designed to establish "a basis on which private enterprise can then build its own industry."[12] In all, the state continued to own a substantial proportion of industry, a situation reinforced by international sanctions applied to Zimbabwe after the Unilateral Declaration of Independence ("UDI") in 1965. Since independence in 1980, the government has effectively left intact much of the inherited structure of ownership, with predominantly private ownership of the productive sectors and an extensive multinational presence.[13]

Of the three countries in the Region, Zambia is most typical of the pattern in Africa. It was left by the British with relatively little industry at independence in 1964 and embarked on a programme of import substituting industrialisation in a bid to diversify the economy and create national "self-sufficiency." In the 1970s, relying on revenues generated by the copper boom of the early part of the decade, Zambia established an economic structure based on extensive state ownership, together with government intervention and controls over almost all aspects of the economy. This policy regime was maintained and intensified following the

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[11]Shula Marks and Stanley Trapido, "South Africa since 1976: an Historical Perspective" in Shaun Johnson (ed.), South Africa: No Turning Back (1988), p.8.

[12]Ian Phimister, An Economic and Social History of Zimbabwe 1890-1948: Capital Accumulation and Class Struggle (1988), p.252.

[13]The World Bank, Trends in Developing Economies 1990 (Washington, D.C. 1990), p.617.

collapse of copper prices in 1975, with the government resorting to heavy foreign borrowing to stave off the effects of deepening recession. A build-up of external debt occurred that now burdens the economy.[14]

The point about the non-commercial ambitions touched on above is that they feature prominently in decisions to establish and maintain PEs, but the extent to which they have been achieved is often difficult to measure. Even those susceptible to measurement have not, however, been dealt with in this paper, which is concerned with financial performance. So, for example, employment creation is a major objective in the establishment of many PEs. PEs established in labour surplus countries pursuant to cost-benefit analyses using a shadow wage rate below that of the market wage will tend to labour intensity, which may or may not undermine their profitability. In this paper, we are mainly concerned with questions relating to the latter issue. This is not to deny that employment creation is a legitimate objective. The emphasis of the paper does, however, imply that the achievement of non-commercial aims at the expense of profitability may ultimately be self-defeating.

As indicated in Section 1, the rationale underlying the establishment of PEs has often been that the private sector will not fulfil the function for which they are required. Clearly, this has often been so in the Region. We can, however, legitimately ask whether this Gerschenkronian process begins to reverse itself at some stage. When a (capitalist) country reaches a certain degree of industrialisation, is there a tendency for public ownership to start shrinking relative to private ownership?[15] If so, what is the magic level and are South Africa and Zimbabwe, for example, near to it? If they were, and the share of public ownership was increasing, it would be reasonable to start looking for perverse government policies which encouraged such a process. These are very large and complex questions and are not directly addressed in this paper. They are superficially touched upon only in so far as we are concerned, in Section 5, to identify changes in the size of the PE sector.

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[14]Ibid., p.610.

[15]In this context, it is interesting to note that in industrial countries the shares of PEs in output and capital formation actually fell between the early 1960s and the end of the 1970s (although by only half a percentage point in each case). For developing countries, the share of PEs in GDP rose by 4 1/2 percentage points between the late 1960s and the end of the 1970s and the share in investment increased by 10 1/2 percentage points. (Short, op. cit., p.124.) Increases in the size of the PE sector were especially marked in Africa (Short, op. cit., p.124) and were largely attributable to the efforts (touched upon in Section 3) by African governments to promote industrialisation and economic self-sufficiency.

4. The Data; Changes Therein During the Last Two Decades

In this paper, the focus is on those economically important, quasi-independent entities which African governments have created to do what they feel their private sectors cannot do, are not doing or should not do. Where statistics are available, they tend in any event to relate to this category of enterprises, so that there is also a practical reason for preferring it. PEs are commonly defined for reporting purposes as government owned or controlled enterprises which are distinct legal entities, engaged in business activities and supposed to earn the bulk of their revenues from sales. To be more specific, country accounts generally use the definition of Non-financial Public Enterprises (Corporate and Quasi-corporate) contained in the United Nations publication, A System of National Accounts ("SNA"). The SNA definition reads, in part, as follows: "Publicly owned and/or controlled enterprises primarily engaged in non-financial activities which are (i) incorporated public corporations ... or (ii) large unincorporated units (government enterprises) that sell most of the goods or non-financial services they produce to the public."[16] The International Monetary Fund's A Manual on Government Finance Statistics (the "Manual") comments as follows on the definition: "Corporate nonfinancial public enterprises are those recognized as business entities independent of their owners by virtue of legislation, administrative regulations, or registration. Quasi-corporate nonfinancial public enterprises are generally expected to have complete profit and loss statements and complete balance sheet accounts on the financial assets and liabilities, as well as the real assets, involved in the business; however, they may also include government agencies which are mainly engaged in selling industrial or commercial goods and services to the public on a large scale without maintaining these accounts." The Manual goes on to explain that "[n]onfinancial public enterprises are thus bounded on one side by departmental enterprises, which are unincorporated or are not mainly engaged in selling industrial or commercial goods and services to the public on a large scale, and on the other by private enterprises, which are not entirely or mainly government-owned and/or government-controlled."[17]

This paper relies mainly on data relating to Non-financial Public Enterprises. Financial public enterprises, enterprises run by government departments, and regulatory agencies and statutory boards are thus generally outside of the scope of the paper, although they sometimes enter into the accounting definitions used by the countries and thus the data. Quite often countries use different definitions for different reporting purposes and there are certainly variations among countries in the way data are gathered with respect to PEs. In short, it has not been

[16]The United Nations, A System of National Accounts (New York 1968), p.78.

[17]The International Monetary Fund, A Manual on Government Finance Statistics (Washington, D.C. 1986), pp.20-21.

possible to use a single, consistent definition of PEs throughout the paper. I have, however, attempted to use the data in a comparative way only where it seems appropriate to do so.

Anyone who has worked on this subject knows that relevant data are generally non-existent and at best incomplete, as the Tables and the notes thereto indicate. None of the international organisations publishes anything like comprehensive data on PEs and individual countries generally do not identify PE operations separately in their accounts. Even where data do exist, there are often large gaps in time series, making definitive statements about trends difficult. Moreover, it is far from clear how complete and accurate the available statistics are, since accounting for the PE sectors is by no means transparent or systematic. Also, as already indicated, data consistency over time and comparability across countries is problematic, due to varying accounting methods, definitions and diligence. Consequently, the statistics I have been able to uncover, with considerable assistance from the South African Central Statistical Service, the South African Office for Public Enterprises and Privatisation and the Zimbabwe Central Statistical Office (but with rather less cooperation from the Zambian Central Statistical Office, the Zambia Industrial and Mining Corporation Limited ("ZIMCO") and the Office of the Zambian Auditor-General), present only a very patchy picture of the PE sector in the Region. In part, this paper points to the need to collect the information contemplated herein in a thorough manner. Policy makers reading the paper will be able to judge for themselves how useful it would be if they could feel secure about the reliability of such information.

As a glance at the Tables and Figures will show, the quality of many statistics relevant to this paper has been comparatively high since the mid-1970s in Zimbabwe. The Zimbabwe Central Statistical Office is nonetheless conscious of the need for better data on the economy and seems to have improved its collection and presentation thereof in the last three or four years, although I am not aware of any special effort with respect to PEs in this regard. In South Africa, where data collection is generally fairly good, not a great deal of statistics on PEs were available until the mid-1980s. The South African Office for Public Enterprises and Privatisation is aware of the shortcomings of its data and has indicated that it has, together with the South African Central Statistical Service, launched what it described to me as "a small program to gather relevant information, which may require considerable time and effort." In Zambia the quality of many statistics was quite reasonable during the 1970s and the first half of the 1980s, but appears to have deteriorated since.

Quite apart from the inadequacies of the actual data, there are two respects in which the figures presented in this paper understate the extent of government activity in the economy. The first is that, as described above, certain government enterprises are specifically excluded from the definition of PEs. Secondly, even within the definition of PEs, the paper generally addresses only enterprises owned or controlled by the central government. This is quite simply because while data are very poor at the central government level, they are considerably worse (i.e., generally non-existent) at the local government level.[18] These points really do need constantly to be borne in mind.

5. The Scope of the PE Sector in the Region; Changes Therein During the Last Two Decades

Table I gives an idea of the principal industries in which PEs have been engaged in the Region. It is apparent that they have been involved to some extent in most of the important areas of economic activity in all three countries.

The contribution of PEs to the economies of the Region is set out in Table II, in terms of (a) numbers of PEs, (b) shares of GDP, (c) shares of investment and (d) percentages of labour force employed.

In Zambia, the number of PEs actually increased during the 1980s. Similarly, while the PE sector's share of GDP fell from 35.0% to 26.8% between 1981 and 1982, it then grew every year thereafter until 1985 (when our data set ends), indicating the weakness of the PE reform programme (discussed in Section 9). The PE sector's share of investment rose from about 50% in the early 1970s to over 60% by the end of the decade. It declined substantially in the early 1980s,

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[18]Such data as are available suggest that there may be respects in which the impact of PEs at the local government level are significant, at least in South Africa and Zambia. So, for example, while current transfers from the Zambian central government to Non-financial PEs totalled 0.9, 0.9 and 1.1 million Zambian Kwacha in 1978, 1979 and 1980 respectively, the corresponding figures for local government were 7.6, 7.3 and 6.9 million Zambian Kwacha. On the other hand, subsidies from central government to Non-financial PEs were 24.0, 101.4 and 194.7 million Zambian Kwacha in those years, while the corresponding figures for local government were only 1.0, 1.5 and 0.05 million Zambian Kwacha. (Zambian Central Statistical Office, Financial Statistics of Government Sector.) Since there are insufficient data to enable proper calculation of the net flows between local government and PEs, it is hard to judge what the impact of including local government data would be. In South Africa the data at local government level are of a higher quality, although still incomplete. The gross operating surplus of PEs at the central government level was 15.1, 14.8 and 12.1 million South African Rand in 1988, 1989 and 1990 respectively, while the corresponding figures at local government level were roughly 8, 10 and 16% of those amounts respectively. The relative size of the PE sector at local government level is thus not insignificant and possibly increasing.

but had virtually regained its 1979-1980 levels by 1984. The PE sector seems, however, to have failed to create employment opportunities commensurate with this increased investment: Its share of formal sector employment was 43.4% in 1980, but had fallen to 34.4% by 1983. It is obviously difficult to say what the effect of more labour-intensive techniques would have been on profitability, but, as we shall see in Section 6, the choice of relatively capital intensive techniques does not appear to have had a positive impact on the financial performance of PEs.

In South Africa, the PE sector is much smaller, in relative terms, than that in Zambia. Its share of GDP fell steadily over the second half of the 1980s, from a high of 16.0% in 1984 to 11.5% in 1989. The sector's share in investment went from 16.6% in 1970 to 27.3% in 1980. It then fell off very sharply from 1981 onwards, and by 1990 stood at 17.2%. These figures are consistent with a picture of "free enterprise" reforms in the 1980s, particularly in the second half of the decade. (See Section 9.)

The number of PEs in Zimbabwe remained fairly constant over the 1980s. The PE sector is even smaller, in terms of size relative to the national economy, than that of South Africa. This result, which contradicts in one respect the Gerschenkronian thesis discussed in the second paragraph of Section 1, stems from the high degree of political commitment to the establishment of PEs by the National Party in South Africa. No comparable commitment existed in Zimbabwe, as mentioned in Section 3. The PE sector's contribution to GDP averaged 8.3% both for the period 1975 to 1978 and from 1984 to 1987, but dropped to 5.6% in the years 1980 to 1982. The share of the Zimbabwe PE sector in investment exhibits considerable fluctuations over time. In 1975 it stood at 17.5% and in 1988 was 15.7%, but during the period 1979 to 1981 it averaged 8.6% and between 1982 and 1986 the average level was 26.9%. These numbers suggest that, aside from the stabilisation-induced contraction in government spending in the early 1980s (discussed in Section 9), no significant changes of government policy toward investment in PEs have taken place during the period for which we have data. As we shall see in Section 9, this is basically true, although the mild reforms that have occurred appear to have had a positive impact on financial performance. (See Section 6 in the latter regard.)

The PE sector's share of GDP is very high in Zambia, compared to an 8.6% average for less developed countries ("LDCs") generally.[19] South Africa and

[19]Short, op. cit., p.118.

Zimbabwe, on the other hand, are not far off the average.[20] Except to the extent mentioned in the paragraph above, the trends in the PE sectors' shares of GDP identified in the preceding three paragraphs tend to reinforce the Gerschenkronian expectations outlined in the second paragraph of Section 1. As far as the issues raised in the third paragraph of Section 1 are concerned, the numbers suggest that the industrialisation processes in both South Africa and Zimbabwe, and particularly in the former, are at a sufficiently mature stage for the PE sector's share in GDP to be falling off or at least to be remaining constant. In Zambia, this is not yet the case. Of course, it may well be that poor government policy is unnecessarily holding back attrition of the PE sector in all three countries, but especially so in Zambia. This is, as indicated in Section 1 above, a difficult issue to resolve. Understanding of the issue can only be advanced by comparing performance of PEs with that of the private sectors in the Region in the manner suggested in the second paragraph of Section 6.

6. Financial Performance of the PE Sector in the Region During the Last Two Decades

The aggregate financial results for the Region's PE sectors are presented in Table III. The term "financial results" is defined for each country in the notes to Table III. Differences in accounting and tax systems, methods of funding, treatment of depreciation, inflation, subsidies and interest payments mean that the financial results across countries are not strictly comparable. Moreover, prices of inputs and outputs may be distorted, calling, in principle, for shadow pricing. Financial results, in other words, are influenced by deviations from market prices as well as by operating efficiency. Nonetheless, they constitute a sensible starting point for assessing the performance of PEs and especially trends therein over time. To enable some comparison of PE performance across countries, in this paper financial results have been measured as a percentage of GDP.

Table IV could contain far more information if the relevant data were available. It is obviously very important to monitor PE performance, notably in the areas of financial profitability, returns to investment and wages, and the effectiveness of resources used. The scarcity of data necessary to construct these ratios hampers such monitoring. In particular, it has not been possible to construct liquidity ratios, such as a ratio of current assets to current liabilities. Similarly, there is virtually no information on the leverage of PEs in the Region. The Table attempts to provide information on performance of the PE sector and its use of resources at current (financial) cost. Leverage ratios measure levels of debt

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[20]For comparative purposes, note that PEs' share of GDP in Britain was 7.8% in 1979 and 4.3% in 1986. (Matthew Bishop and John Kay, Does Privatization Work? Lessons from the U.K. (1988), p.5.)

financing. Profitability ratios measure the extent to which investments yield profits. Productivity ratios measure the effectiveness with which resources are employed. Ideally, we should have the same ratios for the private sector for comparative purposes, and policy makers should elicit these to make the necessary comparisons. Studies of other LDCs indicate that PEs are usually far less productive and profitable than private enterprises.[21]

In Zambia, the PE sector made a loss equal to 3.5% of GDP in 1981, but by 1984 was showing a profit equal to 7.4% of GDP. It should be noted that these data are only for the companies organised under ZIMCO. On the other hand, the ZIMCO group did account for 90% of the government's PE investment in the fiscal year 1988[22] and for 95% of PE turnover in the years 1980 to 1986.[23] The data we have for Zambia indicate returns to investment and levels of leverage that compare favourably with those experienced by other countries in Sub-Saharan Africa.[24]

In South Africa, the PE sector showed a gross operating surplus equal to 8.0% of GDP in 1985, but by 1989 this had shrunk to 6.4%. The ratio of financial results to investment shows generally improving performance for the period for which it is known, i.e. from 1985 onwards. It should also be noted that the ratio can sensibly be compared to that in Zimbabwe and bears testimony to far better performance in South Africa. There was very little change in the productivity of labour in South African PEs between 1985 and 1989. The ratio of PE value added to PE payroll costs ranged from 2.2 to 2.4 throughout. The ratio is comparable to that obtaining in countries like Niger and Senegal, but only about half the magnitude of that in Malawi.[25]

The Zimbabwe PE sector experienced a significant drop in profits between 1978 and 1982. The Zimbabwe Central Statistical Office attributed the sharp decline to "the unfavourable economic condition coupled with a loss of some skilled manpower after 1980 [the year of independence]."[26] But by 1983 profits had

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[21]Studies quoted in Swanson & Wolde-Semait, op. cit., p.69.

[22]Calculated from information on p.2 of the Report of the Zambian Auditor-General for 1988 on the Accounts of Parastatal Bodies.

[23]Swanson & Wolde-Semait, op. cit., p.35.

[24]Ibid., pp.19-20.

[25]Ibid., p.20.

[26]Zimbabwe Central Statistical Office, 1985 Statistical Yearbook of Zimbabwe, p.102.

regained their 1978 level of 2.3% of GDP and by 1987 had reached 3.4% of GDP. The ratio of PE value added to PE payroll costs suggests declining productivity in the early 1980s and improvements thereafter, to the point where productivity levels were beginning to approach those seen in South Africa by 1987. Similarly, the ratio of financial results to investment reinforces the impression of poor results in the early 1980s and improving fortunes after 1982.

One of the ratios in Table IV shows the relationship between the PE sector's share of GDP and its share of investment. This is the most interesting ratio, in a way, since it allows us not only to judge the effect of investment by PEs on the national economy, but also permits us to make direct comparisons both of performance by the PE sectors and of trends therein among the three countries of the Region. Figure A depicts graphically the changes in these ratios over time, using all the data we have. Figure B plots three year moving averages of the same data, thus removing annual kinks from the graph. In Figure C, the three year moving averages are plotted from 1982 (the first point in this data set for Zambia) to 1988 (the last point in the set for South Africa). In very general terms, Figure C shows South Africa performing best, followed from a clear distance by Zambia, with Zimbabwe far behind both. In terms of trends over the 1980s, South Africa displays improving performance and Zimbabwe has been picking itself up off the floor since about 1983, but the decline in Zambia has been fairly steady.

7. Influence of the PE Sector in the Region on Government Finance and Credit Markets During the Last Two Decades

PEs finance their losses and investments through direct financial transfers from government, and domestic and external borrowing. Profits generated by PEs are channelled back to these sources or reinvested in the PEs. There are also certain implicit flows between government and PEs.

The financial results of PEs influence the level and composition of government expenditure, domestic credit and external debt. This occurs in at least three ways:

(a) By creating a drain on government budgets through non-payment of taxes and requiring subsidies to meet capital and recurrent costs. In principle, the budgetary burdens imposed by PEs may be met by measures that reduce other government expenditure or increase government revenue, or they may be passed forward into higher government deficits and hence be financed by borrowing or money creation. Experience shows that there is a strong tendency for the budgetary burdens of PEs in fact to be passed forward and thus account in part for high and rising government budget deficits in many LDCs.[27]

(b) By straining the domestic credit system and requiring special access and preferential interest rates on loans that are then not always serviced.

(c) By diverting capital away from investment in other areas of the economy that may be more profitable. Foreign borrowing by PEs causes particular problems because of its impact on the balance of payments. Such borrowing generally has less of an impact on economic stabilisation in the short term than government or bank finance. In LDCs, it is often used to purchase imported capital equipment and may therefore have little immediate effect on the overall balance of payments or domestic liquidity. The resulting debt burden can, however, be a major source of problems in the longer term, especially as repayments will have to be made in foreign exchange.[28]

The information in Table V is aimed at measuring the impact of PEs on the government budget. It sets out estimates of net direct financial flows (excluding borrowing) between government and the PE sector in the Region.

Estimates are available for South Africa only with respect to the financial year 1989-90. They therefore tell us very little. For that particular year the impact of direct financial flows between PEs and government was very small relative to GDP. No statistics are available for Zimbabwe.

In Zambia, net direct financial flows from government to the PE sector averaged 3.2% of GDP for the period 1968 to 1970. This is a very large number, especially given that the PE sector was supposed to mobilise resources and contribute to government revenues. From 1980 to 1984 the net flow was actually in the opposite direction, to the tune of 1.1% of GDP on average. These figures do exclude borrowing and should be seen in the context that net lending (including net acquisition of securities) by the government to the PE sector averaged a massive 6.2% of GDP from 1978 to 1980.[29] In 1988 government lending to ZIMCO alone was equal to 82% of total government expenditure and 237% of the budget deficit.[30] Moreover, it may be that while direct government payments

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[27]Short, op. cit., p. 175.

[28]See Short, op. cit., p. 176.

[29]Calculated from information in Financial Statistics of Government Sector, published by the Zambian Central Statistical Office.

[30]Calculated from information in the IMF's 1991 Government Finance Statistics Yearbook and the Report of the Zambian Auditor-General for 1988 on

to PEs have been declining, they have been resurfacing through implicit flows such as government assumption of PE debt. There is in any event something rather peculiar about the nature and size of the flows between the government and ZIMCO. It is often argued that PEs are undercapitalised by governments. In the case of ZIMCO, the reverse seems, on the face of the figures, to be the case and it is far from easily explicable. We have already seen that the levels of government lending to the group of companies is very high. It is also the case that the government has made enormous equity investments in the companies. But, while the companies are apparently very profitable, we have also seen that their performance in servicing debt owed to the government is very poor. In addition, the Auditor-General consistently complains that the group does not pay sufficient dividends to the government, given the profits it makes.[31] Certainly, it is peculiar that while ZIMCO retained profits equal to roughly 29% of GDP at 31 March 1985[32], it distributed no dividends to the government during 1984[33] and net direct transfers from ZIMCO to the government equalled only 3.1% of GDP.[34] For a group that probably accounted for over 50% of all investment in the economy that year[35], this was, incidentally, no startling performance. The puzzling aspect, however, is that there would have been a simple way for the government to increase its returns from ZIMCO: It could have started by not subscribing for shares worth 570 million Kwacha nor making "capital grants and contributions" of over 30 million Kwacha to the group during the year ended 31 March 1985.[36] Together, these amounts equalled 12% of Zambia's GDP for

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the Accounts of Parastatal Bodies.

[31]See, for example, the 1980 and 1984 Reports of the Zambian Auditor-General on the Accounts of Parastatal Bodies.

[32]Calculated from information on p.3 of the Report of the Zambian Auditor-General for 1984 on the Accounts of Parastatal Bodies.

[33]Report of the Zambian Auditor-General for 1984 on the Accounts of Parastatal Bodies, p.3.

[34]See Table V.

[35]Extrapolated from information in Table II.

[36]Report of the Zambian Auditor-General for 1984 on the Accounts of Parastatal Bodies. It is clear from the 1984 Report that ZIMCO felt it necessary to be very conservative in declaring dividends at the time in order to shore up its liquidity position and to facilitate reinvestment in the group. It is equally clear that the government was of the view that more dividends should have been declared. It is, however, not apparent why the government did not adopt a tougher stance, possibly along the lines I have suggested. Moreover, the issue was

1984.
Many flows between government and PEs are implicit and hence not represented in the calculations of direct financial flows. Implicit flows from government to PEs include the following: Unpaid taxes, dividends and transfers; prepaid goods and services not delivered; tax holidays; concessional financing rates; debt assumption. Implicit flows from PEs to government consist mainly of payment arrears which are never settled (like unpaid bills for the provision of electricity at government facilities) and unsubsidised employment of redundant personnel or employment at artificially high wages under government directives. There is, however, insufficient information available to make meaningful calculations of these flows. It is usually assumed that such implicit flows operate largely in the direction of the PE sector[37] and they could significantly affect the results produced above. Take the case of Zambia, where the Auditor-General routinely complains that PEs fail to service their debts to the government. As at 31 December 1983, for example, ZIMCO had piled up principal arrears of 9.8 million Kwacha and interest arrears of 41.5 million Kwacha.[38] Together, these arrears were equal to an extraordinary 1.2% of Zambia's GDP. Moreover, the fact that information is generally unavailable on these flows is evidence of a lack of transparency and weak accounting and reporting procedures that undermine the credibility of the PE sector and impair efforts to improve its performance.

Government transfers are not the only way that PEs finance their operations. They also borrow heavily from domestic and external sources to cover operating losses and to finance investments. Table VI sets out what limited information we have on the PE sector's share of domestic credit and external debt in the Region. Unfortunately, statistics are available only for Zambia. It should be noted that direct foreign loans to PEs do not include money "on-lent" by government. The external debt figure may thus provide only a partial picture of PE foreign borrowing. Certainly, it is thought that in Zambia a substantial difference exists between what PEs borrow directly and what government borrows or assumes on their behalf.[39]

Financing from the domestic banking sector is important partly because increasing the share of PEs in total credit can have the effect of crowding out private sector

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not new: It had, for example, been raised in the Report of the Zambian Auditor-General for 1980 on the Accounts of Parastatal Bodies.

[37]See, for example, Swanson & Wolde-Semait, op. cit., p.12.

[38]Report of the Zambian Auditor-General for 1984 on the Accounts of Parastatal Bodies, p.2.

[39]Swanson & Wolde-Semait, op. cit., p.17.

firms. The position is exacerbated when loans to the PE sector are poorly serviced, as is certainly the case in Zambia. Domestic public borrowing, by bond issues, can have similar crowding out effects. At least one study indicates a positive correlation between economic growth and the share of private sector credit in total domestic credit in selected African and Asian countries. The same study suggests that private enterprises use financial resources more efficiently than the public sector, and that saving ratios decline sharply wherever the government directly or indirectly determines the demand for domestic credit.[40]

In Zambia, the PE sector's share of domestic credit went from 12.6% in 1980 to 14.2% in 1984. Given the much larger share of the PE sector in GDP, crowding out in the domestic market does not seem to have been a major issue, although it is certainly unfortunate that the sector's share of domestic debt was rising at the same time as its share of GDP was falling. Of greater concern is the fact that the sector's share of external debt rose dramatically from 26.2% to 60.0% between 1980 and 1986. PE external debt has thus been a significant factor in Zambia's external debt crisis.[41]

8. The General Case for PE Reform

By the late 1970s, the PE sector had absorbed a large share of governments' budgets in the form of subsidies and capital infusions. As governments ran into severe fiscal problems in the 1980s and loans became increasingly difficult to raise at home and abroad, they were forced to consider relatively radical methods for improving the performance of the PE sector.

The root causes of poor PE performance can be seen as both external and internal.[42] External factors include unfavourable export or import prices, limited access to markets and high interest rates.[43] Internal factors include inappropriate

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[40]Study quoted on p.16 of Swanson & Wolde-Semait, op. cit..

[41]The country's total external debt stood at US$7.5 billion in 1991, which was twice GDP at the current exchange rate and probably much more at an equilibrium or market rate. (The World Bank, Trends in Developing Economies 1991 (Washington, D.C. 1991), p.602.)

[42]Swanson & Wolde-Semait, op. cit., p.22.

[43]All of which were problems for the three countries in the Region for much of the 1980s. High nominal and real interest rates were obviously a feature of the international economic landscape from the end of the 1970s. Deteriorating barter terms of trade faced by many of the Region's commodities (notably, in this

investment decisions, an adverse operating environment characterised by a weak capital base and price controls, and institutional impediments such as insufficient operating autonomy and poor accountability. Many PEs are engaged in projects not sufficiently appraised in terms of technical, economic and financial viability due to the absence of pre-investment cost-benefit analysis or due to non-economic considerations. At times, there is a lack of clear distinction between economic goals and social objectives in establishing PEs. Government interference with operational decisions of PEs is a common feature of the institutional impediments to their functioning efficiently. Managers are appointed according to criteria other than managerial skills. Moreover, they are constrained by a decision-making process that is politicised. Employee incentives are often suppressed by rigid wage guidelines.

The 1980s saw governments introducing PE reform efforts to deal with some of these factors, including financial and physical restructuring and divestiture. These programmes have sometimes been supported by macroeconomic reform, involving price and import liberalisation and exchange rate realignment.[44] Obviously, PEs operate in different environments and perform with varying degrees of success, so no single set of reform measures is appropriate for revitalising the PE sector. PE reform actions can be roughly grouped according to their purpose as follows[45]:

(a) Macroeconomic policy reforms aim at providing a more appropriate policy framework for PEs through liberalisation of price controls and protective trade policies, elimination of state monopolies and revision of tariff structures and investment codes. These policies are designed to improve the competitive environment in which the public and private sectors co-exist.

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context, Zambian copper and Zimbabwean tobacco) during the 1980s reflected weak demand resulting from sluggish growth in the industrialised countries and other exogenous factors, such as the development of superior substitutes for copper.

[44]Similar activity took place in countries around the world, including Britain, during the 1980s. This reflected, in part, the powerful intellectual and political tides flowing against state involvement in the economy during the decade. These in turn were a response the stagflationary economic environment of the late 1970s, for which Keynesian economic management was held responsible in many quarters. International bodies such as the IMF and the World Bank helped this view along in Zambia and Zimbabwe, as we shall see in Section 9. In addition, there were domestic pressures for reform of the PE sector in all three countries in the Region. Again, these are discussed in Section 9.

[45]Swanson & Wolde-Semait, op. cit., p.23.

(b) Divestiture programmes aim at rationalising the PE sector through (i) liquidation and closing down of non-strategic, non-viable PEs, (ii) privatisation of non-essential PEs, and (iii) introduction of management contracts for viable enterprises where government wishes to retain ownership or is unable to find buyers.

(c) Rehabilitation aims at resuscitating viable PEs through physical and financial restructuring, revenue and expense alignment, information management and personnel training programmes. Financial restructuring aims at restoring a sound basis for PEs through cancellation of cross debts between various economic agents, stricter budgetary discipline (including limits on subsidies and timely payment of government bills) and tighter credit policies.

(d) Management reform aims at introducing management tools such as regular and standardised auditing, accounting, procurement and personnel policy. At the national level, these reforms consist in improving the flow of information between government and PEs.

(e) Legal and institutional reform aims at revising the legal framework governing PEs and introducing new institutional arrangements so as to achieve (i) more effective government monitoring, (ii) a stronger role for the board of directors, (iii) better relationships between government and managers through performance contracts, monetary incentives and performance evaluation, and (iv) increased autonomy and better definition of managerial accountability.

The case for divestiture rests principally on two arguments: (i) Some PEs should not have been created in the first place because, for example, the country has no comparative advantage in producing their output or the capacity created has not been well adapted to local demand and supply conditions. If the government cannot sell such PEs, it should liquidate them. (ii) The state is a poor entrepreneur. Even if a PE is covering its costs or providing a return on its capital, the opportunity cost of that capital is high and it could be producing a higher return elsewhere. There are, however, some industries (e.g. utilities) where for economic, political or strategic reasons privatisation has not been on the agenda. Here the aim is to provide a system of incentives that will reward improvements in efficiency. Allowing private firms to compete in the market is often an important element of this strategy.

9. Reform of the PE Sector in the Region During the 1980s

The deterioration of the Zambian economy referred to in Section 3 reached crisis proportions in 1982, when trade credits to the country were suspended. Attempts were made during the 1982-88 period to restructure the economy. These were, however, largely ineffective, due to weak implementation capacity and lack of consensus in Zambia over the need for adjustment and over what type of reform measures were required.[46]

As early as 1979 there was talk of reorganising ZIMCO with the aim of "making the company increase its contribution to the country's economy."[47] In 1984 the Auditor-General reported "weaknesses in internal controls obtaining in these organisations [i.e., PEs]. It was also evident that the line of controls is not clearly defined in as far as the functions of the boards of directors and Government ministries and departments are related."[48] In 1985 and 1986 Zambia was granted Sector Adjustment Loans by the World Bank to assist it in its efforts to reform the PE sector.[49] In 1988 the Auditor-General was still reporting weaknesses in internal controls, including "poor credit control systems; inadequate purchasing procedures; lack of adequate information systems; inadequate safeguards against loss of property and cash through thefts; lack of proper guidelines on replacement of fixed assets; etc..." The Auditor-General went on to observe that there was "lack of co-ordination between the various sister companies in the Parastatal Sector and there was a general tendency of the organisations to enter into costly ventures which resulted into heavy losses. Although the performance of the Parastatal Sector improved due to the liberal pricing policy, some organisations, however, operated on depleted working capital and because of the previous accumulated losses, the shareholders' funds were, in most cases, in deficit."[50]

The Zambian reform programme does not appear to have been very far reaching. Between 1983 and 1987, Zambia completed only one privatisation and six management contracts. It had achieved no liquidations, had no PEs under study for divestiture and had performed no other rehabilitations.[51] The number of PEs actually increased substantially between 1980 and 1989. The net effect, as we have seen, was that the Zambian PE sector exhibited declining performance as the 1980s proceeded.

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[46]Trends in Developing Economies 1990, op. cit., p.610.

[47]Report of the Zambian Auditor-General for 1980 on the Accounts of Parastatal Bodies, p.1.

[48]Report of the Zambian Auditor-General for 1984 on the Accounts of Parastatal Bodies, p.1.

[49]Swanson and Wolde-Semait, op. cit., p.34.

[50]Report of the Zambian Auditor-General for 1988 on the Accounts of Parastatal Bodies, p.1.

[51]Swanson & Wolde-Semait, op. cit., p.53.

Faced with a seriously declining economic situation, the government decided in late 1988 that policy changes were required. It initiated discussions and subsequently agreed with the World Bank and the International Monetary Fund (the "IMF") on a revised adjustment programme.[52] The industrial strategy of the government pursuant to this programme envisages an enhanced role for the private sector. Measures aimed at divesting the ownership and management of many PEs have been initiated to promote competition, reduce the managerial burden on the government, and enlarge the scope for private sector activities. In May 1990 the Zambian government announced its intention to sell to the public up to 49% of its shares in many PEs. In the 1991 budget speech, the Minister of Finance stated that the ultimate goal of the government is to sell outright or at least transfer majority ownership of all PEs except public utilities and other "strategic" industries. The government has established a committee to develop mechanisms for implementing this policy initiative.[53]

Even with an enhanced role for the private sector, PEs will continue to play a major role in the economy. Therefore, work has begun on the second phase of the PE reform programme. The relationship between ZIMCO and its subsidiaries is to be examined to ensure that they do not impair the effective operations of the subsidiaries and an economic and financial review of 14 of the poorer performing PEs is to be undertaken. Recommendations on ways to improve the performance of these firms are to be made, including possible financial and organisational restructuring, managerial changes, taking on joint venture partners, etc.. In those cases where a firm is economically unviable, actions to divest or close down the operation either partially or fully are expected.[54] It can only be hoped that the programme will gather momentum in time.

Most PEs in Zimbabwe were inherited from the colonial period and have not been significantly restructured.[55] The reform process in Zimbabwe started as early as 1980, with the liquidation of several PEs and the consolidation of others.[56] By the second half of 1981 Zimbabwe was also being urged to take on

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[52]Trends in Developing Economies 1990, op. cit., p.610.

[53]Trends in Developing Economies 1991, op. cit., p.601.

[54]Trends in Developing Economies 1990, op. cit., p.612.

[55]Rob Davies, "The Transition to Socialism in Zimbabwe: Some Areas for Debate" in Colin Stoneman (ed.), Zimbabwe's Prospects: Issues of Race, Class and State in Southern Africa (1988), p.23.

[56]Zimbabwe Central Statistical Office, 1985 Statistical Yearbook of Zimbabwe, p.91.

board items from the IMF's usual stabilisation package, partly as a result of over-ambitious development plans (which resulted in both internal budget deficits and external payments deficits), partly because of the worsening trade climate, and partly because of South Africa's restriction of Zimbabwean transit trade. By early 1983 Zimbabwe had agreed a programme involving a loan of $375 million from the IMF.[57] Meanwhile, the World Bank produced several studies on the Zimbabwean economy, particularly on the industrial sector. Its findings on the efficiency of Zimbabwean industries were often quite favourable, but some were adjudged extremely inefficient, although subsequent recalculations by the World Bank showed that certain major companies in the latter category, like the Zimbabwe Iron and Steel Company ("Zisco") were in fact considerably more efficient than thought at first.[58] Perhaps this ambivalence has been partly responsible for the fact that consumer subsidies have been tackled with "disproportionate aggressiveness", as opposed to the operating losses of PEs, although the power of vested interests is probably at least as important in explaining the small scale of the PE reform programme.[59] Nonetheless, the programme apparently bore fruit in improved performance from about 1983 onwards.

A poor overall economic climate in South Africa and the state's weak fiscal position in the 1980s encouraged moves towards lower state spending, privatisation of government functions, self-funding government services, and so on.[60] In 1985, the South African government published a White Paper on privatisation and deregulation. It contained the following views: "Owing especially to the statutory provisions in terms of which public corporations and State business enterprises are operated, and the fact that their mandates do not necessarily take into account all the economic implications of such activities, they are not always managed on the basis of profit and return on capital to the same extent as private sector undertakings. They can obtain loans against government guarantees, and therefore they are not necessarily geared to achieving the optimal

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[57]Colin Stoneman, "The Economy: Recognising the Reality" in Colin Stoneman (ed.), Zimbabwe's Prospects: Issues of Race, Class and State in Southern Africa (1988), p.55.

[58]Stoneman, op. cit., p.57.

[59]Obert I. Nyawata, "Macroeconomic Management, Adjustment and Stabilisation" in Colin Stoneman (ed.), Zimbabwe's Prospects: Issues of Race, Class and State in Southern Africa (1988), p.110.

[60]T.C. Moll, "'Probably the Best Laager in the World': the Record and Prospects of the South African Economy" in John D. Brewer (ed.), Can South Africa Survive? Five Minutes to Midnight (1989), p.155.

utilisation of capital. They also do not make a contribution to tax revenue." The White Paper went on to argue that the financing needs of PEs, amongst other factors, were crowding out private investment.

Early in 1988 the South African government created the Office for Public Enterprises and Privatisation to oversee a systematic programme of privatisation and "commercialisation" of PEs. Several large PEs, including Sasol (fuel products), Iscor (iron and steel) and National Sorghum Breweries have been privatised. Other PEs are subject to commercialisation, which involves bringing incentive structures in line with those prevailing in the private sector in an effort to produce similar levels of performance. These PEs include Escom (electricity), Transnet (airlines, railways, harbours, road transport and oil pipeline), Foskor (mining), Sapos (postal services) and Telkom (telecommunications). As we have seen, the PE sector has shown improvements in performance in the 1980s, but data do not exist to assess the impact of the more extensive reform programme launched in 1988.

10. Conclusions

I have expressed considerable misgivings about the quality of data available for use in this paper (where they have been available at all). Similarly, the comparability of much of the data is questionable, making cross-country comparisons difficult. A basic conclusion is therefore that data collection in the Region must be considerably enhanced. It seems that both South Africa and Zimbabwe have recently taken some (though clearly not adequate) steps in this direction. Perversely, the quality of data in Zambia has deteriorated over the period under consideration.

Despite the statistical shortcomings, it is clear that PEs have been of considerable economic significance in the Region over the last two decades. In all three countries, they have contributed significant proportions of aggregate output and investment. In Zambia, their impact on the economy has been enormous. They have operated in virtually all kinds of economic activity and have been prominent in key sectors of the Region's economies. It is therefore essential that the governments of these countries carefully monitor and evaluate the performance of PEs in future.

It is also clear that the surpluses of PEs have been small in relation to the resources invested in them. In some years, in Zambia, the PE sector has actually been running a deficit. Moreover, net direct transfers from the PE sector to government have occasionally been negative in Zambia and the suspicion must be that if implicit flows from government to PEs were properly accounted for (an impossible exercise given the state of the data), this pattern would be reinforced.

The budgetary burden of PEs in South Africa and Zimbabwe is impossible to judge in the absence of sufficient data but their financial results, as already stated, have been unimpressive. As a result, PEs have made sizeable demands on government budgets, bank credit, and foreign borrowing. It is, however, clear from even our limited data that the PE sectors in South Africa and Zimbabwe have performed considerably better than their counterparts elsewhere in Africa (including Zambia). This is a picture one does not get from the Africa-wide studies cited in Section 2. The data also suggest that the PE sector reform programmes in these two countries have improved financial performance in recent years. Such achievements should be applauded. Domestic and international efforts in this context should build on these successes and ensure that they are not reversed. In particular, the temptation to expand public sector employment in post-Apartheid South Africa will have to be resisted. This can only be done if the private sector is growing at a healthy rate.

Certain issues fall clearly outside the scope of this paper, but are related and require further thought. The first is that the standard financial indicators referred to in Section 6 may not always be appropriate for measuring the success of PEs. This does not mean that they should be disregarded. On the contrary, as suggested in Section 1, they are a very useful starting point and the information necessary for their calculation should certainly be systematically collected by PEs. In fact, it means that even more information must be gathered. PEs that are required to meet non-economic targets should be fully apprised of the nature of those targets, which should be quantified and capable of measurement. In other words, it is not necessarily the case that PEs must "be evaluated like private enterprises, but rather, that like private enterprises, they must be evaluated."[61] The second is that while aggregate analyses of the kind undertaken in this paper are obviously crucial for making sector-wide judgments, it is vital that micro-level studies be made of individual PEs in the Region. It is particularly important to make such studies of the larger PEs that have been the subjects of various reform efforts, in order to evaluate those reforms and discriminate among them.

[61]Leroy P. Jones, "Performance Evaluation for State-Owned Enterprises" in Ravi Ramamurti and Raymond Vernon (eds.), Privatization and Control of State-Owned Enterprises (Washington, D.C. 1991), p.182.

Table I: Principal Industries in Which PEs are Engaged	
South Africa	
1990	Mining and quarrying; manufacturing; electricity, gas and water; commerce and catering; transport and communication; community services. (a)
Zambia	
1980-82	Hotels; railways; bus and other land transport; airlines; water transport; posts and telecommunications; housing. (b)
Zimbabwe	
1980	Agriculture; mining; manufacturing; electricity; distribution; transport and communications; services. (c)
1991	Agriculture; mining; manufacturing; electricity; distribution; transport; services; health. (c)

Notes to Table I

(a) Non-financial PEs. Source: South African Central Statistical Service.
(b) Source: Short.
(c) Non-financial PEs. Source: Zimbabwe Central Statistical Office.

Table II: Number of PEs and Contribution to GDP, Investment and Employment				
	Number	% of GDP	% of Investment	% of Employment
South Africa				
1970			16.6 (a)	
1971			16.4 (a)	
1972			18.0 (a)	
1973			16.0 (a)	
1974			16.8 (a)	
1975	25 (b)		19.2 (a)	
1976		13.7 (c)	19.0 (a)	
1977		14.5 (c)	22.0 (a)	
1978		15.2 (c)	25.4 (a)	
1979		14.7 (c)	26.8 (a)	
1980		12.5 (c)	27.3 (a)	
1981		13.4 (c)	21.1 (a)	
1982	28 (d)	13.4 (c)	18.8 (a)	
1983		15.1 (c)	18.2 (a)	
1984	26 (b)	16.0 (c)	18.9 (a)	
1985		14.1 (e)	21.5 (a)	
1986		14.1 (e)	19.8 (a)	
1987		13.5 (e)	17.0 (a)	
1988		13.1 (e)	14.4 (a)	
1989		11.5 (e)	16.5 (a)	
1990			17.2 (a)	
Zambia				
1972		37.8 (f)	49.7 (g)	
1977	113 (b)			

Table II: Number of PEs and Contribution to GDP, Investment and Employment				
	Number	% of GDP	% of Investment	% of Employment
1979-80			61.2 (g)	
1980 (k)			54.8 (g)	43.4 (h)
1981 (k)		35.0 (i)	49.6 (j)	37.0 (h)
1982	134 (b)	26.8 (i)(k)	50.0 (j)(k)	34.1 (h)(k)
1983 (k)		30.9 (i)	58.8 (j)	34.4 (h)
1984		31.5 (i)(k)	57.2 (j)(k)	
1985	137 (b)	35.0 (i)(k)		
Zimbabwe				
1975		7.8 (l)	17.5 (m)	
1976		8.7 (l)	18.3 (m)	
1977		8.4 (l)	14.8 (m)	
1978		8.3 (l)	11.4 (m)	
1979		7.4 (l)	7.1 (m)	
1980	28 (n)	5.8 (l)	8.7 (m)	
1981		5.3 (l)	9.9 (m)	
1982		5.7 (l)	26.5 (m)	
1983		9.6 (l)	31.0 (m)	
1984		10.3 (l)	24.3 (m)	
1985		6.5 (l)	28.1 (m)	
1986	24 (b)	6.6 (l)	24.4 (m)	
1987		9.9 (l)	17.4 (m)	
1988			15.7 (m)	
1991	29 (n)			

Notes to Table II

(a) Share of public corporations in gross domestic fixed investment. Source: Calculated from figures provided by the South African Reserve Bank.
(b) Non-financial PEs. Source: IMF, Government Statistics Yearbooks.
(c) Value added by PEs (including the enterprise departments of local authorities) to GDP at factor incomes, as a percentage of GDP. Source: Calculated from figures provided by the South African Central Statistical Service.
(d) Non-financial public corporations. Source: Zimbabwe Central Statistical Office, 1985 Statistical Yearbook of Zimbabwe.
(e) Gross value added by public corporations as a percentage of GDP. Source: Calculated from figures provided by the South African Central Statistical Service.
(f) At factor cost. Source: Short.
(g) Share in gross domestic capital formation. Source: Short.
(h) PE employment/Total formal sector employment.
(i) PE gross value added/GDP at market prices.
(j) PE gross investment/Total gross domestic investment. Estimated on basis of net financial resources available to ZIMCO.
(k) Non-financial PEs. Source: Swanson and Wolde-Semait.
(l) Wages and salaries of non-financial public corporations plus gross operating surplus of non-financial public corporations, as a percentage of GDP. Source: Zimbabwe Central Statistical Office, National Income and Expenditure Report 1990.
(m) Gross fixed capital formation by Non-financial PEs as a percentage of total gross fixed capital formation. Source: Zimbabwe Central Statistical Office, National Income and Expenditure Report 1990.
(n) Non-financial PEs. Source: Zimbabwe Central Statistical Office.

Table III: Aggregate Financial Results of PE Sectors		
	Local Currency (a)	**% of GDP**
South Africa (b)		
1985	9,900	8.0%
1986	11,731	8.3%
1987	12,623	7.7%
1988	15,112	7.6%
1989	14,766	6.4%
Zambia		
1980 (c)	29.7	0.97
1981 (c)	-122.6	-3.52
1982 (c)	-77.8	-2.16
1983 (c)	193.0	4.62
1984 (c)	348.8	7.07
1988 (d)	4,492	20
Zimbabwe (e)		
1975	44	2.2
1976	54	2.5
1977	50	2.3
1978	55	2.3
1979	51	1.8
1980	15	0.4
1981	48	1.1
1982	65	1.3
1983	145	2.3
1984	191	3.0
1985	72	1.0

Table III: Aggregate Financial Results of PE Sectors		
	Local Currency (a)	**% of GDP**
1986	213	2.7
1987	307	3.4
1988	400	

Notes to Table III

(a) Millions of Zambian Kwacha. Millions of South African Rand. Millions of Zimbabwe Dollars.

(b) Gross operating surplus of central government PEs. The 1989 figures exclude certain privatised industries, notably Iscor and Sasol. Source: South African Central Statistical Service.

(c) ZIMCO only. Net financial results are profits less losses, where profits and losses are defined before transfers, subsidies and taxes, after interest and depreciation. Source: Swanson and Wolde-Semait.

(d) ZIMCO profits before tax and after exchange losses. Source: Report of the Auditor-General for 1988 on the Accounts of Parastatal Bodies.

(e) Gross operating surplus of Non-financial PEs. Source: Zimbabwe Central Statistical Office, National Income and Expenditure Report 1990.

Table IV: Leverage, Profitability and Productivity Ratios for the PE Sector				
	Total Debt/ Net Worth	% of GDP/ % of Investment (a)	Financial Results/ Investment	Value Added/ Payroll Costs
South Africa				
1985		0.66	1.6 (b)	2.3 (c)
1986		0.71	2.06 (b)	2.4 (c)
1987		0.79	2.35 (b)	2.2 (c)
1988		0.91	2.66 (b)	2.4 (c)
1989		0.70	1.84 (b)	2.3 (c)
Zambia				
1972		0.76		
1980-84			0.21 (d)	
1980-86	0.38 (e)			
1981		0.71		
1982		0.54		
1983		0.53		
1984		0.55		
Zimbabwe				
1975		0.45	0.54 (f)	1.46 (g)
1976		0.48	0.69 (f)	1.59 (g)
1977		0.57	0.89 (f)	1.44 (g)
1978		0.73	1.41 (f)	1.42 (g)
1979		1.04	1.82 (f)	1.38 (g)
1980		0.67	0.33 (f)	1.07 (g)
1981		0.54	0.59 (f)	1.16 (g)
1982		0.22	0.24 (f)	1.16 (g)
1983		0.31	0.38 (f)	1.93 (g)

Table IV: Leverage, Profitability and Productivity Ratios for the PE Sector				
	Total Debt/ Net Worth	**% of GDP/ % of Investment** (a)	**Financial Results/ Investment**	**Value Added/ Payroll Costs**
1984		0.42	0.66 (f)	2.03 (g)
1985		0.23	0.23 (f)	1.18 (g)
1986		0.27	0.67 (f)	1.26 (g)
1987		0.57	1.05 (f)	2.00 (g)

Notes to Table IV

(a) From information in Table II.
(b) Gross operating surplus of central government PEs expressed as a ratio to gross fixed capital formation by public corporations. Source: South African Central Statistical Service.
(c) Gross value added by central government PEs/Remuneration of labour by central government PEs. Source: Calculated from figures provided by the South African Central Statistical Service.
(d) Financial results expressed as a ratio to investment. Source: Swanson and Wolde-Semait.
(e) Total of medium and long term domestic and external debt expressed as a ratio to net assets. Source: Swanson and Wolde-Semait.
(f) Gross operating surplus of Non-financial PEs expressed as a ratio to gross fixed capital formation by Non-financial PEs. Source: Zimbabwe Central Statistical Office, National Income and Expenditure Report 1990.
(g) Gross value added by non-financial public corporations expressed as a ratio to wages and salaries of non-financial public corporations. Source: Zimbabwe Central Statistical Office, National Income and Expenditure Report 1990.

Table V: Net Direct Financial Flows from Government to PEs (from PEs to Government)		
	Local Currency (a)	**% of GDP**
South Africa		
1989/90 (b)	(81)	(0.03)
Zambia		
1968	11.6 (c)	1.1
1969	23.5 (c)	1.8
1970	10.7 (c)	0.9
1971	62.6 (c)	5.3
1972	14.9 (c)	1.1
1978	49.6 (c)	2.2
1979	138.8 (c)	5.2
1980	237.2 (c)	7.7
1981 (d)	(2.5)	(0.1)
1982 (d)	66.1	1.8
1983 (d)	(119.2)	(2.9)
1984 (d)	(154.1)	(3.1)

Notes to Table V

(a) Millions of South African Rand. Millions of Zambian Kwacha.
(b) Interest paid by PEs to central government minus subsidies and capital transfers from central government to PEs. Source: South African Central Statistical Service.
(c) Interest payments to and from public corporations, subsidies to public corporations, current transfers to and from public corporations, capital transfers to and from public corporations. Central government only. Source: Zambian Central Statistical Office, Financial Statistics of Government Sector.
(d) Government payments to PEs less PE payments to government. Source: Swanson and Wolde-Semait.

Table VI: Share of Public Enterprises in Domestic Credit and External Debt		
	% of Domestic Credit	**% of External Debt**
Zambia		
1980 (a)	12.6 (b)	26.2 (c)
1981 (a)		29.2 (c)
1982 (a)	15.5 (b)	31.9 (c)
1983 (a)	16.1 (b)	30.2 (c)
1984 (a)	14.2 (b)	37.2 (c)
1985 (a)		54.6 (c)
1986 (a)		60.0 (c)
1980-86 (a)	14.6 (b)	38.5 (c)

Notes to Table VI

(a) Non-financial PEs. Definition does not include financial PEs or public agencies. Source: Swanson and Wolde-Semait.

(b) PE domestic credit outstanding/Total domestic credit (Claims on government (net), Non-financial PEs, the private sector and financial institutions).

(c) PE external debt outstanding/Official external debt outstanding.

Table VII: GDP (a)			
	South Africa (b)	**Zambia** (c)	**Zimbabwe** (d)
1968		1,062	
1969		1,314	
1970	12,908	1,219	1,080
1971	14,245	1,181	1,244
1972	16,105	1,348	1,419
1973	19,918	1,591	1,553
1974	24,472	1,888	1,861
1975	27,454	1,583	1,998
1976	30,800	1,896	2,166
1977	34,120	1,986	2,198
1978	39,297	2,251	2,359
1979	46,698	2,660	2,822
1980	63,237	3,064	3,441
1981	71,080	3,485	4,433
1982	80,531	3,595	5,197
1983	91,457	4,181	6,306
1984	107,221	4,931	6,404
1985	123,126	7,072	7,019
1986	142,135	12,963	7,902
1987	164,524	19,632	8,928
1988	198,110	22,495	
1989	232,532		
1990	262,650		

Notes to Table VII

(a) Current prices. Source: IMF, International Financial Statistics.
(b) Millions of South African Rand.
(c) Millions of Zambian Kwacha.
(d) Millions of Zimbabwe Dollars.

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