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PARASTATALS IN KENYA:
ANALYSIS OF THEIR CONDITION AND METHODS FOR AN IMPROVED
PERFORMANCE

RESEARCH PROPOSAL

BY

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PARASTATALS IN KENYA:
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Performance

IV

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ABSTRACT

Parastatals are involved in almost every sector of the Kenyan economy. It is the purpose of this project to analyse their role, structure and performance in terms of their potential contribution to economic development.

It is intended to find criteria which help - within the context of specific situations - to define guidelines for goal setting and performance and for initiating and implementing necessary improvements to enable government institutions and the management of Parastatals to achieve more efficient decision making, planning and control.

GENERAL BACKGROUND

The entrepreneurial activities of government have been under discussion since the era of industrialisation. They increased rapidly when the so-called laissez-faire principle was given up in favour of an important government role in social and economic policies. The earliest types of public enterprises owned by the state were statai monopolies and statai manufacturing factories in France. These activities were especially performed to serve a fiscal policy, that is, to supplement income from taxation and duties in order to balance the government budget.

The last century brought increasing government participation in almost every sector of society, the cost of which could only be met by increasing expenses from the statai budget. This, still existing tendency, has emphasised the importance of revenue earning from public enterprises. But in addition, there has been a realization that the economy will not operate appropriately without state influence through an economic policy.

In order to maintain the overall functioning of the economy, the governments have had to provide and keep up competition or control important natural resources, which might be overexploited by a few individuals, in contrary to the interest of the public and without long-term planning. Governments have taken over responsibility to enhance and protect the economy of their countries so as to improve the income situation of the population. This has meant also providing the infrastructure as a basic condition for economic activity which includes not only road construction but also utilities and communication structure of a country. In cases where high capital investment and country-wide long-term projects with no individual return on investment and profit in the short run is demanded, private enterprises could not be appropriate. In pursuit of this development the / ^{industries} of mining, post and telecommunications, power, railways, airways and shipping are totally or at least in most cases public property and are kept from private interest.

In general, it depends on the specific economic set up (that is nationalization of every productive equipment on one hand, or free private industry on the other hand) and circumstances of a country whether additional industries are nationalized, besides the above mentioned key industries, which are vital for the economic existence and development.

But within this framework nationalization may be favoured: if private industries are unable to maintain competition and equality of economic opportunities, and to organize their own affairs; if there is no functioning of a pluralistic society with well organized group interests on each level

of the decision process; and if there is a high dependence on international markets and foreign economies. Under these circumstances the state as an entrepreneur may get involved in almost every industry.

Often the role of the state is limited to control and the regulation of industrial activities like distribution, storage and finance of products and services (e.g. agriculture) without establishing its own statal production. In these activities, particularly observed in developing countries, the state acts as entrepreneur and sometimes finances and represents interests of the country in case of world price fluctuations. Therefore the role and pilot-function of the state in business affairs to contribute to the development of the country on a micro-economic level through public owned enterprises should not be underestimated.

These activities of the state should be distinguished from the original key industries, because they normally don't perform productive objectives although in many cases production is controlled and tutored by government institutions which are allowed to establish productive subsidiaries or which may join private enterprises in joint ventures. Even in this case the state acts in the role of representative of Public interest in order to support, stabilize or initiate the national economy and to use foreign capital for this purpose.

All of the business activities of the state including the key industries are mainly performed through separate organized institutions, so called Parastatals, which do not belong to the regular administration or civil service although there are some well known exceptions. Parastatals vary very much in respect to their relations to the government and the civil service. This may range from an almost complete personnel and organizational integration to a high managerial autonomy based on legal and administrative regulations.

The state, Parastatals themselves and the public, especially private industry, may observe Parastatals performance under quite different viewpoints. Whereas government focuses on Parastatals as a powerful instrument to fulfil economic policies, the Parastatals management has to succeed in managing large investments, vital public utilities and pretty large part of wage employment under government control and private criticism as well. This leads to the problem of the role of public enterprises in the economy and the problem of

measuring of their performance and efficiency which are applicable to their specific situation.

So Governments often prefer having the Parastatals acting more closely with the economic policy guidelines, but management of Parastatals may insist on a certain amount of autonomy for efficient decision making. Private enterprises on the other hand question the fairness of competition with the state owned enterprises with privileges and stataal support and power.

The government, management of Parastatals, and the public are interested in such criteria to measure, justify and control Parastatals performance, because they can not be evaluated only in terms of risks, prices and market reactions. Therefore it is a permanent obligation of scientific research, to analyse performance and conditions of Parastatals under different aspects and changing environment and to use modern research methods in order to contribute to recommendations and improvements of efficiency in this field of the economy.

PARASTATALS IN KENYA

Since independence, Parastatals (P) have played an important role in development. There are now more than 115 Parastatals of various kinds contributing more than 10% of the Gross Domestic Product (GDP) (1976) and employing about the same number of employees as the entire public service sector. (teachers are not included) (TABLE 1) Furthermore, according to the Review of Statutory Boards (1979p.22), Parastatals handle about half of the countries exports and require large amounts of foreign exchange for the importation of equipment and machinery.

Originally, Parastatals were established mainly in the agricultural sector. Now they can also be found in all other economic sectors although their role in agriculture is still dominant. In Kenya different types of Parastatals can be distinguished according to their function in the economy (Fig.1).

1. Statutory Boards

More than 18 in number, these Boards differ in function and field of activity. Regulatory Boards are confined to control production, marketing and distribution of different crops and products through licensing and regulating measures. So they are mainly established in the agricultural sector. Besides promotion and protection they are also involved in training and advising a specific industry. Some of them are also expected to do research work. Another type of Statutory Board, the commercial Boards, have been established to protect consumers and producers against price fluctuations of crops and provide also additional services for them such as storage, transportation and handling. Sometimes they have monopoly to handle all exports and imports as well as domestic trade. They often perform functions of Regulatory Boards for their industry.

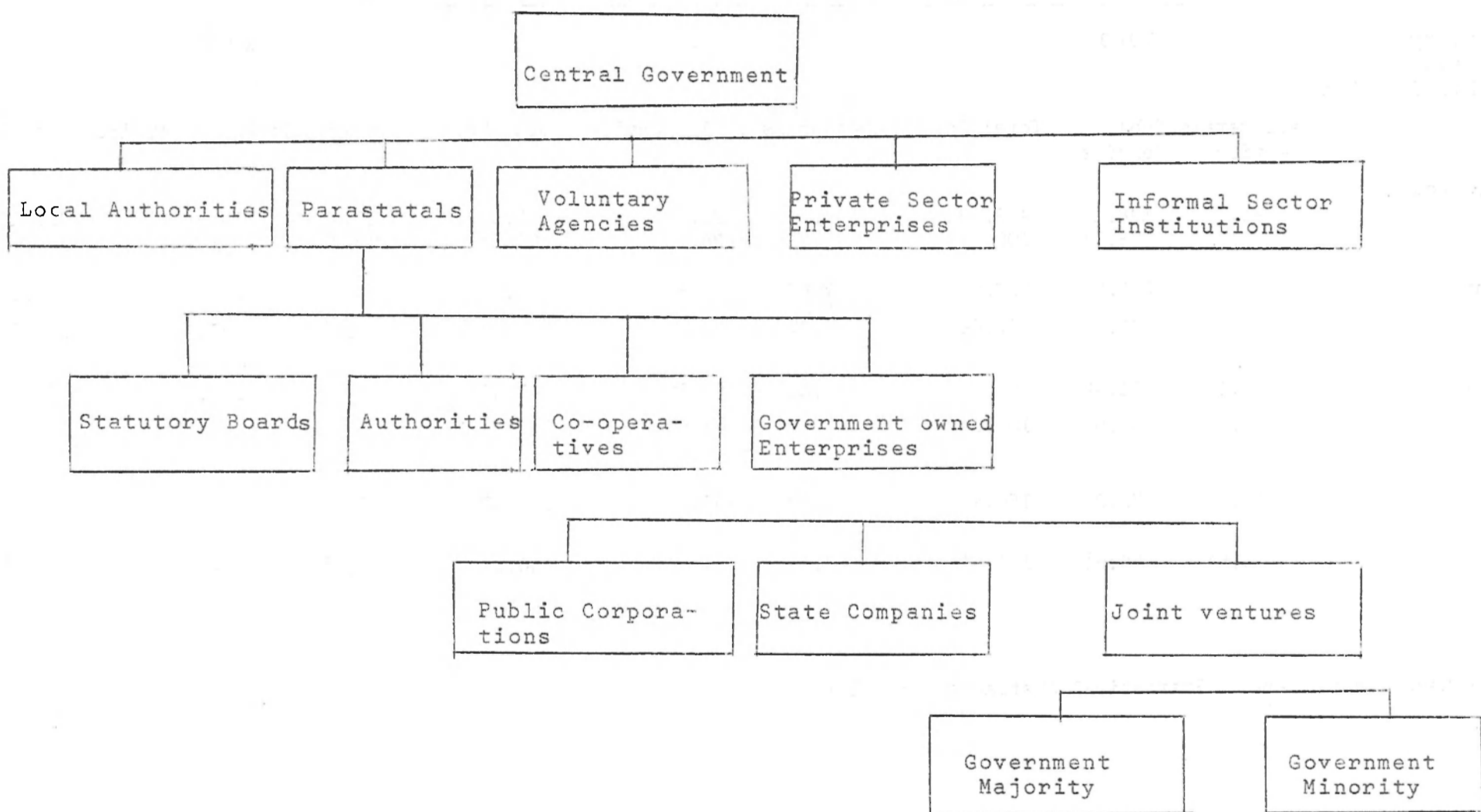
Another type of Statutory Board is involved in coordinating and promoting development of particular industries or areas of Kenya (Developmental Boards). The objective of Finance Boards is to promote small scale farming and private African enterprises by granting short-term credits and loans with reasonable conditions. Some of these Statutory Boards are also called Authorities or are even established as corporations, mainly in the field of developmental activities.

2. Corporations and Companies. These are producing enterprises owned by the government or where the government has an important financial influence. There are more than 80 public enterprises in Kenya which are involved in almost every branch of the economy.

3. Co-operatives. These are mainly found in the agricultural sector, and the government has a major impact on these cooperatives through the Commissioner for Co-operative Development. They deal with agricultural produce which includes "any produce or article produced or obtained by the work or industry of members of a registered society or marketed by a co-operative society whether the produce of agriculture, animal husbandry, forestry, fisheries, handicrafts or otherwise." (The Co-operative Societies Act, 1972).

So, Parastatals in Kenya are organized as Statutory Boards, Corporations (state-owned enterprises or joint-ventures), and Co-operatives. Their function differs from merely regulatory to

(Fig. 1) Parastatals as Part of Kenyan Economic Institutions



Source: Republic of Kenya: Development Plan 1979-1983.

TABLE 1a.

P A R A S T A T A L SCOMPARED TO PUBLIC SERVICE AND NATIONAL ECONOMY OF KENYA

Monetary Economy Enterprises and Non-profit-institution	1969			1976			1977		
	Parastatals Service	Publ. Service	Total Ec.	Parastatals Service	Publ. Service	Total Ec.	Parastatals Service	Publ. Service	Total Ec.
Gross Domestic Prod.									
factor cost	43.9	128.1	449.93	104.04	126.81	473.86	117.43	145.95	516.18
Kf million	9.7%	28.5%	100.0%	21.9%	26.8%	100.0%	22.7%	28.2%	100.0%
Wage Employment	n.a.	237.6	627.2	161.60	356.39	857.53	170.00	376.35	902.89
(Number)		37.9%	100.0%	18.8%	41.6%	100.0%	18.8%	41.7%	100.0%
Capital Formation	8.27	31.44	95.46	n.a.	122.50	291.99	n.a.	157.04	388.69
Kf million	8.7%	32.9%	100.0%		41.9%	100.0%		40.4%	100.0%
Earnings	24.0	71.90	154.40	90.10	196.26	379.61	96.20	221.38	431.43
(Kf million)	15.5%	46.6%	100.0%	23.7%	51.7%	100.0%	22.3%	51.3%	100.0%

Source: Republic of Kenya: Statistical Abstracts 1970, 1978.

TABLE 1b.

P A R A S T A T A L S
COMPARED TO PUBLIC SERVICE AND NATIONAL ECONOMY OF KENYA (1977)

Monetary Economy	Parastatals	Public Sector	Gross Domestic Product (Total)		
Agriculture	2.42	4.34	382.40		
Mining & Quarrying	0.64	0.64	4.64		
Manufacturing	27.63	29.22	205.38		
Building & Construction	7.66	18.73	51.93		
Electricity & Water	15.16	21.61	21.64		
Wholesale Retail Trade Hotels	-0.22	-0.22	190.36		
Transport & Communications	40.63	42.73	69.28		
Finance & Insurance	22.59	23.10	78.49		
Other Services	0.92	5.74	80.43		
Total	117.43	145.95	1,091.65		

Source: Republic of Kenya: Statistical Abstract 1978.

finance, development and promotion and public utilities. They are either responsible for particular crops, products, services, industries or specific areas of Kenya. Their field of activity is mainly established in agriculture and deals with development and maintenance of infrastructure and more commercial fields as well. Parastatals in Kenya seem to be one instrument of government-among others - to initiate and assist indigenous commercial enterprises, to get ^{foreign} aid, exchange and credit for developing the country, to implement development plans and projects, to secure basic public needs by regulating or producing and to compensate lack of competition and to set up exemplary industries.

Government wants to encourage the growth of an indigenous private industry but also reserves some areas for direct or indirect State participation on socio-economic or political reasons according to the following guidelines:

- State participation in critical areas of economic activity,
- performance of certain operation on quasi-commercial lines,
- minimization of dependence on private foreign sector and promotion of an indigenous commercial enterprise, and
- contribution to accelerated and balanced economic growth, with particular reference to rural development. (Report of the Commission of Inquiry, 1979 p.19).

Although Parastatals play an important role in Kenya economy the country goals are to establish a mixed economic system where private and public enterprises have their place and are even requested to cooperate.

From time to time question raises as to whether Parastatals play their part in the economy as efficiently as could be expected given their economic capacity. Parastatals were under consideration in 1971 in connection with the official report of the commission of inquiry, which was mainly related to the public service structure, and again were recently under probe by a government established committee (Review of Statutory Boards, 1979).

The principle criticism made in this report was related to the role of government and the quality of management and management procedures. Also investment and accountability of Parastatals were stated as inefficient, quality of government representation and supervision not sufficient, and there was also a lack of clear guidelines, coordination and information about government investments. The management of Parastatals was also criticised as often not qualified enough which affected procedures of appointment (and vice versa), investment control and project evaluations. There was also a lack of budgetary control and more mere bookkeeping than effective financial management.

Various Parastatals moved away from their original functions and there is a danger of over-politicizing and distribution through the establishment of too many Parastatals. Legislative inconsistencies and lack of uniformity and coordination leads - according to the committee to a duplication of roles among government institutions, between government and Parastatals and among Parastatals as well.

So the findings of the committees (those in 1979 are in a remarkable way similar to those of 1971) confirm in some degree that "since the war the range of government economic instruments has greatly refined, but the role of public enterprises has tended to remain confused and unsatisfactory" (Shanks, 1963 p. 295). An inter-African Public Administration Seminar listed some other factors affecting the efficiency of Parastatals as follows:¹

1. Lack of a clearly defined purpose and specific objectives;
2. Conflicting objectives;
3. Unsuitable budgeting and accounting system;
4. Lack of Planning;
5. Lack of market research;
6. Inadequate testing, evaluation, selection and utilization of machinery and equipment;
7. Unsatisfactory structure, size, members and functions of Board of directors;

1. These factors were discussed at the Twelfth Inter-African Public Administration Seminar in Ibaadan, Nigeria and were reported by Ian Mayo-Smith on an International Conference on Improving Performance in the Public Enterprises, held in Arusha, Tanzania (1975).

8. Lack of qualified manpower, inadequate manpower planning and staff development programmes;
9. Inadequate use of modern management systems and methods;
10. Intrusion of political pressures;
11. High overhead costs and lack of cost consciousness;
12. Insufficient capitalisation;
13. Tribalism and Ethnicity;
14. Bribery and corruption;
15. Haphazard Africanisation programmes; and
16. The lack of adequate data and management information systems.

It is interesting that most of the above mentioned factors were also revealed by the committees established by the Kenyan government.

All these findings of lack of performance of Parastatals must not lead to the assumption "that all policies outside the public firms are perfect and that only the public corporations are open to doubt. This viewpoint has caused a good deal of misunderstanding of the real role and effects of this publicly owned industries (Shepherd, 1965, p. 42).

THE RESEARCH PROBLEM

The aim of the project is to develop recommendations (including implementation) for the improvement of the internal performance of Parastatals in Kenya and their relationship to the economic environment so that their effectiveness as an economic instrument to influence and accelerate national economic development will be increased.

In pursuit of this aim the major focus of the research will be an explanation of how to design and develop the various business functions, information gathering systems, management structures and education programmes for improved planning, control and overall functioning of Parastatals and their external relationship as well. The research will take into account the above mentioned pitfalls of Parastatals performance and also their problems, restrictions and privileges. The recommendations of the recent

Ndegwa-Report will be a valuable bases for this research project ¹⁾ as well as the findings of research in the general field of nationalization an (state owned enterprises regarding developed countries, e.g. Britain, and developing countries as well.²⁾ The problem of measurement of efficiency in the situation of a developing country from the perspective under which this research project will be performed is real since there is little overall review of Kenya's Parastatals.³⁾

Functions and levels will be considered in addition to the investigation of the level of internal performance, the degree of autonomy, the organizational aspects, the financial margin and the effects of relationships with customers, suppliers, competitors and government institutions of different types. The relations of Parastatals with other private enterprises, international agencies, voluntary organizations, popular institutions and with institutions in foreign countries may also be relevant. The integration of Parastatals within the regional environment is also an important aspects of this research.

1. This committee comes about with recommendations closely related to the stated lacks of performance, focused on the following aspects:

- regulations for appointment procedures and remuneration of board members and management of Parastatals,
- regulations for financial management and budgetary control, recommendations for job descriptions for management and the Inspectorate of Statutory Boards,
- procedures for the management of government investments,
- conditions of establishing new Parastatals,
- recommendations on performance of some specific Parastals. For detailed information see: Republic of Kenya: Review of Statutory Boards. Report and Recommendations of the Committee appointed by His Exc. the President, Nairobi, May 1979.

2. Bradley, A.W. and McAuslan, J.P.W.F.: Public Corporations in East Africa; Abramson, Robert: Behavioural Science Application in the Management of Public Enterprises-An East African Case Study; Performance Improvement in Public Corporations - A Case Study by East African Airways Corporation. (Friedmann, W.C. 1970).

3. There is a remarkable exception, but confined to the agricultural sector: T.J. Aldington: The Monitoring of Performance in Agricultural Markets and its Control; and T.J. Aldington: Pricing and competition in Agricultural Markets in Kenya.

Consequently the research work will be based on the following aspects:

1. What are the guidelines of Parastatals, their objectives, tasks and environments? How far do written statement correspond, if there are any with reality? (analysis of objectives).
2. What are the problems of Parastatals, what are the reasons behind and how can they be classified? (problem analysis)
3. What are the inadequacies of Parastatals, and how far do they contribute to decreased efficiency? (analysis of inefficiency)
4. How can productivity of Parastatals be measured and influenced?
5. Which recommendations, besides those of the Ndegwa-Report, can contribute to an improved performance?
6. How can an efficient net of relationship between Parastatals and their environment (government, competitors, suppliers, consumers, a.s.f.) contribute to efficiency?
7. How can the management of Parastatals be enabled to implement organizational changes and other innovations, and what can be the part of government institutions in this respect? (Design of measures and programs, Design of strategies for implementation).

In summary, it is the main purpose of this project to establish a framework of information and guidance to assist decision makers; planners and controllers of government institutions concerned with Parastatals and for the boards and the executive management as well.

Because of the fact that the group of Parastatals in Kenya is a heterogenous one and rather large in number, investigations will probably either have to be limited to one or a few specific groups or to aspects which can be analysed only on a more general level. It is seen as an advantage in research not to confine analysis on specific aspects in a very early phase of research because otherwise a lot of comparison and transferability may be lost. Important criteria for confining recommendations and implementation work may be the type of industry (e.g. agriculture or non-agriculture), present efficiency of performance or function of Parastatal (merely marketing or regulatory or productive).

DESIGN OF THE PROJECT AND RESEARCH METHODS

The necessary information about Parastatals in Kenya will be gathered and evaluated within a pilot-study. This study is also carried out to design a general framework of the structure and performance of Parastatals in Kenya and forms the bases for further research and research priorities on Parastatals. The work on the pilot-study will definitely reveal the type of Parastatal which will be taken under detailed investigation and on which the findings of the research project will be focused.

According to the guidelines as a result of the pilot-study, several case-studies on Parastatals which have been identified as appropriate, will be performed. So the general survey of the situation and perspectives of Parastatals in Kenya will be supplemented by the results of the case-studies, focused on the level of individual Parastatal bodies.

The experiences of both project-phases will lead to a manual of implementation strategies to assist the implementation of the project findings. The implementation process in one or two exemplary Parastatals will be monitored and reported.

The success of this research phase will highly depend on whether it will be possible to interest and to involve decision makers in all phases of the project, so that they are able to identify themselves with or at least can interpret and explain the results of the project. No doubt, the experience of this implementation phase of the project will be extremely valuable to further research in this area and it may increase the probability of implementation of future research in the field of economic and business administration in Kenya.

Information about Parastatals will be gathered from national and international literature, special reports about Parastatals, the reports and documents collected by the Ndegwa Commission, if accessible, and the report of the commission itself. Information which can not be collected from documents and from statistical sources will be gathered through questionnaires mailed

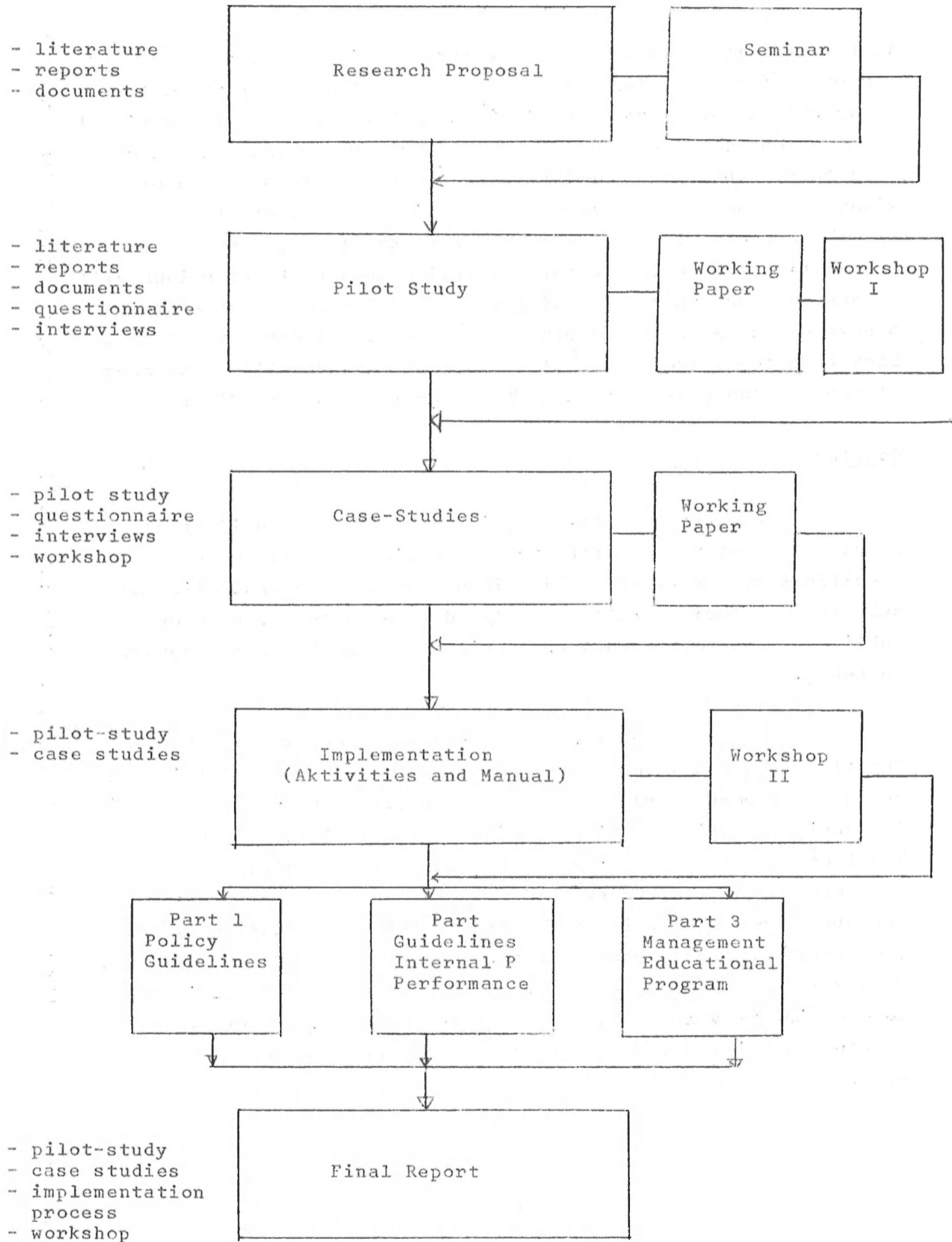
to Parastatals. But this is only intended if a reasonable response to the mailing action can be expected and if the interviews undertaken prove to be less comprehensive so that additional information is needed. A lot of necessary information can only be gathered through interviews because the problems are sophisticated and need discussion and clarification between the researcher and the responsible manager of the Parastatal or government institution. Therefore a representative number of interviews will be arranged and undertaken with different levels of Parastatal management as well as government officials. To get a broad feedback from these two groups, the research results will be presented at two workshops at different phases of the project (Figure 3).

Conclusion

The purpose of the described approach is to identify problems of internal performance of public enterprises in the specific Kenyan context. Objectives, tasks and organisation of selected enterprises will be analysed related to the role of public or government owned enterprises within the mixed economy in Kenya.

In this connection the approach is focussed on the functions and behaviour of the management who has a major impact on the performance and development of public enterprises through its decision making and leadership style. It is stated that knowledge of public enterprises managerial and environmental problems will provide the necessary basis for an improved management system for procedures and decision making and for an adequate revision and development of the organisational structure and its elements. This will, hopefully, enable the public enterprise participate more efficiently in the process of economic development of the country and will help to solve the actual problems and inadequacies.

Design of the Project



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