Dilemma in Development Strategy: The Case of the Industrial Development Agency in Third World Countries

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> Whereas in the "underdeveloped" Europe and America of the eighteenth and nineteenth centuries, very little public enterprise was needed to achieve developmental take-off, in the underdeveloped countries of today, a great deal is needed, and consequently, the Adam Smith formula will not work.
>
> *A. H. Hanson*[1]

The rise in national consciousness and the granting of political independence to developing countries in the post-1945 period has seen a corresponding increase in public sector activities. Fouad Sherif has estimated that the share of public enterprise in Gross National Product in developing countries ranges from 4 to 25% as compared with 10 to 15% in the developed market economies.[2] Almost every week one reads of some takeover or participation in partnership by the state in developing countries. Indeed, it has been said that "... there is a strong correlation between achievement of political independence and the growth of public enterprise".[3]

The motivations for this growth range from ideology to economic necessity. Furthermore, the fire is being stoked to a large extent by the international demonstration effect of developed societies. As a result, politicians in many of these countries are under pressure to cope with the tide of rising expectations of their people. Some say that their programmes to improve the standard of living are inspired by dreams (as in the case of General Amin of Uganda and Eric Gairy of Grenada); others claim that for too long their natural resources have been owned and controlled by foreigners (U Nu of Burma with respect to teak; Kaunda of Zambia with respect to copper). In recent years, therefore, we have witnessed a significant adjustment in the state's approach to development.

La Palombara has pointed out that the kind of development that took

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1 A. H. Hanson, *Public Enterprise and Economic Development*, 2nd ed. (London: Love and Brydene Ltd., 1965).

2 A. Fouad Sherif, "Measures for Improving the Performance of Public Enterprises in Developing Countries," unpublished manuscript, 1969, p. 23.

3 United Nations, "Organization and Administration of Public Enterprises: Selected Papers," ST/TAO/M36 (New York: 1966), p. 13.

place in the western world would not repeat itself, and has posited the view that the state would be increasingly involved in economic and social activities.[4] In developing countries, because of the lack of entrepreneurial skills, the low level of technology, limited financial resources, narrowly-based economies, inadequate communications, poor infrastructural facilities and "sluggish" growth rates or undesirable bulges, governments have had to take deliberate steps not only in pump-priming operations, but in direct development of certain industries, sectors of the economy or regions of the country.[5]

Many of these activities are still concentrated in government departments, but over the years there has been a drift—rightly of wrongly[6]—towards the creation of statutory bodies of one type or another to carry out these objectives. One of the main arguments for the creation of development agencies has been the desire *to establish an administrative structure to short-circuit the normal government machinery and to endow it with developmental drive, coherence and the authority to plan and pursue economic development by such means as seem fit.*[7]

The justification for the adoption of this strategy is based on a number of arguments. First, there is the argument that industrialization can be more successfully approached through an autonomous or semi-autonomous body acting outside the arena of general government administration. This is perhaps the old argument of taking "development out of politics" and giving an agency a free rein, while the government in the final analysis can still pull the emergency brake. The nature of the autonomy actually enjoyed, however, is a polemical question, the discussion of which has to be deferred for the moment. Second, it is envisaged that a separate corporate body, enjoying the rights, privileges and obligations of a legal entity, can act with flexibility and independence, make its own decisions expeditiously, and avoid the delays and red tape with which the civil service has been traditionally associated.[8] Third, such an organization can provide a forum and workshop to which can be attracted entrepreneurial, managerial, technical and skilled expertise from all sections of the community and from outside the country. In this way, without entering into a contract for permanent employment, experts from a number of fields can be assembled together to plan and discuss development proposals. As the board members serve on a terminal basis, changes can be effected to suit the changing priorities and objectives of a government and the quality, experience and knowledge of available directors. Likewise, if there are experts from foreign countries or

4 Joseph La Palombara, *Bureaucracy for Political Development* (Princeton: Princeton University Press, 1963), p. ix.

5 This necessity is typically exemplified in Venezuela, where the state created not only a National Development Corporation (CVF), but also Regional Development Corporations to perform these functions.

6 We do not propose to discuss at any length the pros and cons of this phenomenon, except in so far as it affects the working of the industrial development agency in terms of its autonomy and control. This subject is well covered in the literature on public enterprise, though perhaps not conclusively.

7 A. H. Hanson, *Public Enterprise and Economic Development*, op. cit., p. 210.

8 United Nations, *Some Problems in the Organisation and Administration of Public Enterprises in the Industrial Field*, ST/TAA/MF (New York: 1954), p. 6.

international organizations, these can be either retained or varied as a government's priorities change. Fourth, a corporate body possesses an element of continuity and thus permits the establishment of a career structure in which expertise can be built up over time and retained within a single organization. Compared with the frequent changes in government ministers, permanent secretaries and other staff in the civil service, this continuity is regarded as conducive to stability and efficiency. It does not follow, however, that staff of these agencies cannot be changed. In fact, the opposite argument has been put forward by Robson, Coombes and others. They say that in view of the fact that these agencies are subject to political direction and control, the insecurity of tenure of staff, especially in developing countries, has been a major obstacle to attracting the best qualified staff in public enterprise employment.[9] Fifth, because of the necessity for a commercial orientation, these agencies should follow the pattern of business management in the private sector rather than be forced to observe stringent civil service financial regulations. Managers of industrial agencies expressed the view that unless they are free to take financial decisions without outside hindrance, their commercial viability may be adversely affected. This point has been reinforced by Stuart Holland who indicates that the success of many IRI and ENI companies has been due largely to the autonomy and independence the managers of the enterprises enjoy in management.[10] Furthermore, it is argued that financial independence is necessary if manufacturing undertakings are to become cost-conscious and ultimately self-financing, more so when they operate in a competitive environment. Sixth, these organizations can much more readily enter into partnerships with the private sector to manage specific projects or enterprises than a government department. The great advantage here is that shares can be bought and sold and the private sector—either corporately or individually—can be encouraged to invest in undertakings. Again, expertise from the private sector, not necessarily only local, can be attracted to share its experience and knowledge if this is useful to an enterprise. Because of historical factors or economic socialization it seems that private investors are happier to put funds into an organization in which there is a possibility of participation in decision-making than one in which decisions are left to civil service bureaucrats or exposed to undue political pressures or public surveillance. Seventh, the prevalence of this type of administrative machinery suggests that the view is widely held that an industrial promotion policy can be more smoothly and effectively managed through a development agency of some form than through either government departments or a large number of related statutory agencies which are subject to laws and regulations of one kind or another. The outstanding example of the expression of this strategy is, perhaps, the agency in Lesotho, where the chief ministers of the government—the Prime

9 W. A. Robson, *Nationalised Industry and Public Ownership* (London: Allen and Unwin, Ltd., 1962). See also D. Coombes, *The M. P. and the Administration* (London: Allen and Unwin, Ltd., 1966).

10 Stuart Holland, ed., *The State as Entrepreneur* (London: Weidenfied and Nicholson 1972).

Minister, the Financial Secretary and the Minister of Economic Development—are permanent members of the Industrial Development Corporation.[11]

Generally the objectives of the development agencies with which this study is concerned are to stimulate and facilitate economic development, especially in the industrial sector, by assisting directly in the provision of development capital for new projects or the expansion and/or modernization of existing ones; to establish joint ventures in partnership with the private sector; to undertake investment in those sectors of the economy which private industrialists may be either unable or unwilling to undertake; to provide consultancy or managerial and technical services of one kind or another, and to provide infrastructural and ancillary facilities, e.g. industrial estates and communications, to promote development.

THE ORGANIZATION AND MANAGEMENT OF INDUSTRIAL DEVELOPMENT AGENCIES

One of the recurrent problems in the countries included in this survey is the acute shortage of administrative/management expertise. Almost without exception, interviewees expressed the view that if industrial development agencies (IDAs) are to make any meaningful contribution to development in its wider perspective, sensible administrative organization and appropriate management development programmes have to be highest on the list of priorities. Many developing countries are becoming more and more conscious of the fact that the realization of a higher level of efficiency is dependent on the improvement of the performance capability of the administrative system.

This area of investigation is undoubtedly vast, and the urgency of in-depth case studies to pinpoint specific problems cannot be over-emphasized. In this paper some contemporary issues as perceived in public enterprises with special reference to industrial development agencies will be discussed. I shall examine the administrative structure of these agencies paying particular attention to the organization of the executive in relation to development agencies; the status of the IDA and its position in the hierarchy of government institutions in terms of control and autonomy; the types and composition of boards and their relationship to ministers; the organization below board level, particularly some problems connected with delegation, decentralization and co-ordination of functions; and, finally, some general administrative problems.

Structure and Status of IDAs

Industrial development agencies are instruments of public policy, and as such operate within the political framework of the country concerned. As creatures of parliament operating within the public sector, they are subject to political supervision and control, though the methods may differ,

11 See sub-section (3) of Section 8, Part II, of the Lesotho National Development Corporation Act, No. 18, of 1967.

especially in the case of state companies operating under the companies' ordinance.

Generally speaking, the administrative hierarchy is built on the principle of allocating responsibility for a development agency to a board which is accountable to a minister, who in turn is responsible to the cabinet (in the Westminister-Whitehall influenced countries, e.g. Trinidad and Tobago, Jamaica) or the president (as in Venezuela, Colombia), and finally to the national assembly.

The structure of an organization is fairly straight-forward and does not in itself indicate the status it is accorded in the hierarchy of governmental institutions in a country. Status can be said to be related to such variables as the organization's role and functions, its membership and performance, and the view held of its policies and standing in the plethora of government activities. Its role and functions, for example, could indicate whether certain functions which are regarded as important from a national point of view are entrusted to it, e.g. finance or defence. Membership is a critical factor. For example, if the prime minister, head of state or other important ministers are members of the board, the general tendency is for the organization to be accorded respect and recognition by other agencies. Achievement of objectives—especially when they are significant in realizing national goals such as earning foreign exchange, regional development, providing employment or development of indigenous resources—is also an essential characteristic of recognition. The sum of these factors determines the standing of an agency in the hierarchical structure of government organization. Some people argue that the volume of expenditure is an important consideration. This element, however, would seem to have more of a "budgetary" than "status" significance. It may attract more parliamentary attention, but that does not necessarily earn it a higher status. This is obviously a debatable area.

It must be recognized that whatever the status of a development agency, it operates within the context of a general political structure and as such is subject to ministerial or presidential supervision. The main purpose of ministerial supervision is to ensure that the agency conducts its activities in accordance with the social and economic objectives of the government concerned. This restriction is necessary from the point of view of the final public accountability of the responsible minister. But it is precisely this area that has led to much conflict between the political authorities and development agencies which are generally regarded as "autonomous" bodies operating outside the general governmental structure.

The line that divides (or is supposed to divide) autonomy and answerability to the political authorities is rather thin and tends to be blurred. This problem occurs particularly in developing countries, where intervention is more deliberate because public enterprises are viewed as viable instruments of public policy, whose operations have to be closely supervised to ensure conformity with the broad social and economic strategy that a particular government is pursuing. The reconciliation of the requirements of autonomy with the demand for public accountability is a problem that every development agency faces. In no area is this reconciliation more trying than that of the relationship between the minister and the board of the enterprise. Some feel that such relationships could best be secured through legal enactments. Others, like the late Lord Morrison of Lambeth, are of the view that "... it would work much better if allowed to evolve on the basis of good sense and tradition; rather than if embodied in formal law or regulations."[12] A system that is too legalistic may turn out to be too rigid whereas one built purely on mutual understanding and respect may be too vague and easy to subvert, especially if either the minister concerned or the board is weak. The best approximation to the idea would seem to be not in an either-or approach, but in a mixture of both—the proportion would of necessity have to be determined by the situation prevailing in a given socio-economic context.

Ministerial/Presidential Control

How does supervision and control work in practice? A review of the statutes and customs governing the operation of industrial development agencies suggests that ministerial/presidential supervision can take one or a combination of the following forms:

1. Policy direction of a general nature;[13]
2. The appointment of the chairman or director and board members;
3. The approval of top-level appointments;
4. Budgetary control—approval of loans and capital projects over a certain amount, as in the West Pakistan Industrial Development Corporation;[14]
5. The assignment of mandatory or indicative targets;[15]
6. Directions on matters of public interest and on such subjects as training, research and labour relations;[16]
7. The requisition of returns, reports, accounts[17] and other information and directions for achieving standards in proper auditing and matters of recruitment, discipline and pension; and, finally, but by no means the least important,
8. Consultation—formal and informal—with the chairman and board members.[18]

Much of the ministerial control and supervision rests on conventional

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12 Austin Albu, "Ministerial and Parliamentary Council," in M. Shanks, ed., *Lessons of Public Enterprise* (London: Jonathan Cape, 1963), p. 91.

13 Almost without exception, these powers are explicitly provided for in the statutes of all types of industrial development agencies except in state companies where either the responsible minister holds the requisite amount of equity to appoint members or certain officials are named as directors in the article of association.

14 West Pakistan Industrial Development Corporation, *Annual Report*, 1971, p. 150. The President has to approve schemes costing more than Rs. 10 lakh.

15 As for Africanization policies in Uganda and Kenya with respect to commercial undertakings.

16 Issued as directives or guidelines whenever considered necessary.

17 A requirement invariably mentioned in the statute/law/ordinance.

18 Officials and managers of development agencies admit this as a common occurrence, but most of them are unwilling to discuss the subject seriously because of understandable inhibitions.

practice but in many countries the statute or order governing the agency sets out quite explicitly the powers of the governing authority. In Guyana, for example, the Council of Ministers has the following powers:

1. The Council of Ministers may give to a corporation general directions as to the policy to be followed in the exercise and performance of its functions, and the corporation shall give effect to any such directions.
2. In carrying out such measures of reorganization, or such works of development as involve substantial outlay on capital account, and in dealing with subsidiaries, a corporation shall act in accordance with a general programme settled from time to time in consultation with the Minister charged with the responsibility for development and planning.[19]

Such provisions are typical of the powers of the minister or president and are indeed indicative of the overriding powers of the political authorities over development agencies. It does not necessarily follow, however, that the responsible authority does not consult either colleagues or the agency itself or other interested parties before giving directions or arriving at decisions. From discussions with politicians and officers of parastatal bodies in many countries, it was evident that a good deal of consultation takes place between ministerial colleagues—collectively or individually—to achieve some measure of co-ordination. It was also obvious that consultation takes place with chairmen and board members, though there do not appear to be established channels or forms for such discussions. It is, perhaps, in this area that the responsible political authority holds the greatest sway and one in which there has been a good deal of conflict and dissatisfaction between the politicians and the boards of development agencies. The conflict is exacerbated by the problem of separating policy from administration in public enterprises. A closer look at the organization and functions of the boards of industrial development agencies will throw some light on the nature of the problems experienced in these agencies.

Types and Functions of Boards

Responsibility for the operations of each development agency is given to a board or committee of management, or to the board of directors in the case of those agencies incorporated as state companies under a companies ordinance. These boards are responsible for second-level as opposed to top-level policy, which is handed down by the political authorities through the responsible minister. In principle, the minister lays down the broad objectives to be pursued, and the functions of the board are to formulate plans for the realization of those objectives, to control the budget and staff, and to supervise the overall operations of the agency. The

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19 Section 16 of the Guyana Public Corporations Ordinance, No. 23 of 1962. See also, the Public Corporations (Amendment) Act, 1971 of Guyana; Act No. 14 of 1971, and statutes governing the Regional Development Corporation in Venezuela for similar provisions.

day-to-day administration is delegated to a manager or executive director.

In the delegation of responsibilities, however, a distinction must be made between boards which are purely policy-making, where no administrative or executive responsibility is assigned to any board member, as in the Industrial Development Agency in Barbados and Trinidad and Tobago, and functional boards where specific managerial and technical responsibilities are given to one or more board members, as in Jamaica.

It is not possible within the limitations of this study to express an opinion as to which type of board is more effective, but we can indicate some of the more obvious advantages and disadvantages mentioned in different countries.[20] It has been stated that on some functional boards there is a tendency to a narrow outlook which has militated against the broader interests and objectives of the agencies. Members who carry full-time responsibilities, for example, have in many cases become so involved in their managerial and technical tasks that they make little contribution to overall policy. One of the consequences of this tendency has been "empire-building", which has resulted in the establishment of unbalanced priorities, thwarting the development of a coherent overall policy for the agency. Furthermore, when these full-time directors are numerous or when they have strong political connections, unnecessary operational details or extraneous political factors enter the board room and slow down the decision-making process.

Protagonists of functional boards, on the other hand, have argued that a full-time member has more opportunities for acquiring detailed knowledge of the agency and of the aims and objectives of the board. Full-time members are in a better position to ensure more effective implementation of the board's policy than when this task is left to administrative staff, as with a policy-making board. Another advantage of these functional boards is that they receive reports on such matters as work in progress and levels of expenditure on particular projects directly from a director or manager who can be held accountable. Otherwise such reports are submitted through the normal administrative channels, which are often slow and unreliable. These advantages were realized to a lesser or greater extent in development agencies both in the Caribbean and in Africa.

Policy boards, on the other hand, have the advantage of overseeing the operations of an enterprise from a detached point of view, and thus they avoid becoming involved in day-to-day affairs. Theoretically, these boards formulate policy within the broad directives of the political authorities but leave the executive responsibilities to the officials of the organization. This detached view, it is argued, is intended to give the members a chance to think about major policy and to reflect on plans for future overall development. In this way they are supposedly aloof from minor problems and become more conscious of the enterprise's obligations to the public

20 We have avoided naming specific countries where particular criticisms of the advantages or disadvantages were made in order not to betray the confidentiality of discussions with civil servants, politicians and officers of public enterprises.

and to government policy. Furthermore, it is said, such a system can permit devolution of responsibility and thus give scope for initiative and decentralization of authority. This detached objective approach that is so desirable in ideal administration is sorely lacking, however, in many of the boards of industrial development agencies in developing countries because of the quality, experience and tenure of members and the tendency to emphasize sectional interests—political and otherwise. Furthermore, it has been reported that these boards have been ineffective in the supervision and implementation of policy and have been subverted by strong-willed chairmen and managers or by-passed by politicians.

Harlander and Mezger, for example, have reported of Uganda that:

> Whereas during the first decade of the Corporation's existence, the Government had restricted itself mainly to giving general policy directions, it has since taken, to an increasing extent, to interfering directly with individual policy decisions of the Uganda Development Corporation Board.[21]

In a Caribbean country it was reported that a senior official tendered his resignation because he refused to carry out the "personal orders" of the Chairman who did not get the prior approval of the Board for that particular assignment. There was apparently disagreement among Board members as to the action to be taken, so the chairman took it upon himself to give instructions. The incident created such a stir that the Minister had to intervene. The Chairman retreated from his position and the official withdrew his resignation.[22]

The fundamental problem of policy boards in these states appears to lie in the differentiation between policy and administration, as members of boards are often tempted to intervene in matters which properly fall within the sphere of executive administration. It has been said that such a situation is conducive to ministerial intervention and, in the long run, robs the enterprise concerned of its autonomy, and indeed of the advantages of a policy-making body.

Membership of Boards

As can be expected, the size and composition of boards is variable. In Lesotho, for example, the National Development Corporation Act provides for a membership of not less than four and not more than six directors;[23] in the Ugandan Development Corporation there are at least four but not more than twelve;[24] but in the Guyana State Corporation the number is elastic. In addition to the President and Vice-President of Guyana, and not more than five persons nominated by the Prime Minister, the Board consists of the chief executive officers of the other public corporations

21 H. Harlander and D. Mezger, *Development Banking in Africa* (Munich: Verlag, 1971), p. 92.
22 Discussions held with an official of a development agency in the Caribbean.
23 Lesotho National Development Corporation Act, No. 20 of 1967; Part II, Section 8 (2).
24 Section 8 of the Uganda Development Corporation Act, No. 1 of 1952.

established under the Public Corporations Ordinance and "such persons designated by the President of the Corporation as representatives of other corporate bodies in which the controlling interest is vested in the state or in any agency on behalf of the state."[25] Harlander and Mezger record that the membership of boards is "usually 6-10 directors, in a few cases more or less, but the trend is towards a smaller number."[26] In the countries we have surveyed, the average number tends to be about seven.

We found that smaller boards which work as a team, and yet are large enough to represent varied interests that are relevant to the operation of the agency, are much more effective than large boards where many of the members may have divergent views which could and have, in fact, adversely affected the decision-making process.

In some cases, as indicated, the size of the boards is laid down in the statute/order/decree creating the agency, whereas in others this is left to the discretion of the responsible minister or president. It is difficult to lay down any dictum on this point, but a commendable practice is that the size of boards should not always be left to the moods of politicians, as unnecessary contraction or expansion for political appeasement or patronage could promote instability and insecurity, but one could argue that this flexibility may be necessary to secure conformity with governmental policies.

With respect to state companies and mixed enterprises, the size of the board is determined by the proportion of public-private shareholding. In the Botswana Development Corporation Ltd., for example, where the state holds all the equity, the Board is comprised of members appointed by the Vice-President and Minister of Finance and Development Planning.[27] Likewise in Uganda, all the members are appointed by the state through the Minister of Commerce and Industry, although the original legislation and the amendments of 1963 envisaged participation by private shareholders. In actual fact, the provision is that if there were at any time private shareholders with 25% of the equity they would appoint at least two directors.[28] The interesting example, in this respect, is the Swaziland National Industrial Development Corporation where the Act[29] provides that the Board shall consist of not less than five and not more than nine directors[30] but that:

> That private shareholders may elect
> (a) one director, if the shares held by them do not exceed twenty-five per centum of the total of B shares of the corporation;
> (b) not more than two directors, if such share-holding exceeds twenty-five per centum of the total B shares, but does not equal or exceed fifty per centum thereof;
> (c) not more than four directors, if such share-holding equals or exceeds fifty per centum of the total B shares.

25 Section 2 (2A) of Guyana Public Corporations (Amendment) Act, No. 14 of 1971.
26 H. Harlander and D. Mezger, *Development Banking in Africa*, op. cit., p. 31.
27 See handout issued May 1972 by Botswana Development Corporation, Ltd.
28 H. Harlander and D. Mezger, *Development Banking in Africa*, op. cit., pp. 94-97.
29 Though incorporated under an Act of Parliament, the Corporation operates as a limited liability company with Articles of Association, etc.
30 See Act No. 17 of 1971, Section 7 (2), (3) and (4).

> Provided that the Minister may, in writing, approve of the private shareholders appointing a number of directors in excess of those referred to in this subsection.[31]

The government in the final analysis decides how many shares shall be held by whom. Unlike Uganda, the private sector in Swaziland has, in fact, been involved. The Board of Directors is now composed of representatives from government and two private commercial banks, Barclays Bank International, and the Standard Bank Ltd., both of Swaziland.[32] In some countries, it is said, the private sector representation has been an inhibiting force to national development.[33]

Tenure of Members.

The tenure of members varies between one to three years with the right of re-appointment. If a director is also the managing director, it is likely that his term is longer, as in Swaziland, where it can be for five years.[34] The terms and conditions of board members are usually determined by the appointing authority. Functional directors receive salaries and part-time board members receive allowances of one kind or another.

Members' tenure in most industrial development agencies varies with a change in government. This practice was noticeable in almost all the countries examined. In some cases directors had served for less than one year. Tenure of one year or less is an unusually short period and is conducive to instability in management; it has, in fact, affected the formulation of serious long-term planning and co-ordination of development. When a government changes, a certain number of resignations or politically inspired disqualifications are expected; but when there is almost a clean sweep, it can signify only that appointments to the board were more political than policy or efficiency oriented.

Under these circumstances, boards are likely to become—or at least give the impression of becoming—political mouthpieces. In order to instil some degree of trust in members and allow for long-term planning and a sense of purposeful activity, it may be advisable to appoint board members for not less than two years. They could, of course, be removed at any time for gross misconduct or criminal offences.

Qualifications and Types of Members

Other factors influencing the character of the board are the qualifications and experience of its members. In the Industrial Development Corporation

31 Ibid., Section 7 (3) and (4). The share capital of the Corporation shall be $M.4.0 and made up of (a) Fifty thousand ordinary shares of one rand each—A shares, and (b) Three million, nine hundred and fifty thousand ordinary shares of one rand each—B shares. On application by the Minister, A shares shall be issued and subject to this section, be held by the Government and the B shares may be issued to and held by the Government provided that B shares may be issued to and held by such private persons as the Government may approve (section 15 (1) and (2) of Act No. 17 of 1971).
32 See handout entitled "Attention Investors; Swaziland waits to welcome you," issued by the Development Corporation in February 1972.
33 See article on Zambia in *African Development* (October 1973), pp. 15-17.
34 Section 10 (1) of Act No. 17 of 1971.

of Trinidad and Tobago, the ordinance in general terms provides that membership be drawn "... from amongst persons who have special qualification in, and have had experience of matters relating to business management, economics, engineering, agriculture, accountancy or banking."[35] Similar provisions exist for many industrial agencies in Africa.[36]

In some countries there may be specific requirements for the representation of certain groups or offices on boards. In the Instituto Fomento Industrial of Colombia, for example, the Junta Directive (Board of Directors) consists of the Minister of Economic Affairs, the Minister of Finance, the Managing Directors of the Banco de la Republic, and of the Banco Central Hipotecario, and a representative of the President of the State.[37] In the Regional Development Corporation of the Andes, the General Council shall consist of:

> one representative from each of the states whose territory is totally or partially incorporated into the area which is assigned to the Corporation, elected by the respective Legislative Assemblies or Delegate Commissions; three representatives from the private economic sectors, i.e. agriculture, cattle-raising and industrial sectors and services, elected by the representative organisations in the region; three representatives from the Workers Federation of Venezuela, elected by the respective organisations in the region; one representative from the University of The Andes; and one representative from the Central Office of Co-ordination and Planning of the Presidency of the Republic.[38]

There is clearly no uniform pattern for constituting the boards of industrial development agencies. Legal provisions seem to be influenced by historical factors, conventional practice and special needs and circumstances in each country.

Many developing countries have an official member, either provided for in the statute[39] or by convention. More often than not this individual is the permanent secretary, or his assistant, of the supervisory ministry. In many industrial development agencies, civil servants play an active role on the boards. The presence of an official representative has been criticized on the grounds that he is the minister's mouthpiece and not an independently qualified and experienced member who is free to express his own views. This particular criticism was taken rather seriously in Trinidad and Tobago, where the Ministry of Trade and Industry no longer has one of its principal civil servants on the Board of the Industrial Development Corporation. The Ministry feels that it is now in a better position to make

35 Section (d) of Act No. 9 of 1969 to amend certain enactments of the Statutory Authorities in Trinidad and Tobago.
36 H. Harlander and D. Mezger, *Development Banking in Africa*, op. cit., p. 94, record that members are chosen "by reason of their ability and experience in business and administration".
37 Manfred Nitsch, *Entwicklungsfinanzierung in Latein-amerika dargestellt am Beispeil Columbiens* (Scrifttenreiche des Instituts fur Iberoamerikakunde, 1970).
38 Article 5 of the Law for the Partial Reform of the Law for the Corporation of the Andes, passed on 2 August 1971.
39 As in Guyana where the Public Corporations Ordinance of 1962 provided for an official member.

an objective independent evaluation of the IDC's proposals than when the Permanent Secretary or his assistant had already participated in the decision-making process at board level.[40]

Valuable contributions have been made by private sector representatives and other persons possessing special abilities or experience of one kind or another. At this time the consensus seems to be that these persons are the most able—technically and administratively—to serve on the boards of industrial development agencies. In many countries, however, until recently these board members were mainly expatriates. This situation is undoubtedly due to the limited number of experienced and qualified persons available locally.

For some time yet, it seems that private sector representatives will play a leading role on the boards of industrial development agencies. Harlander and Mezger express the view that

> even in a wholly government owned development corporation of a socialist country, such as the National Development Corporation of Tanzania, four of the ten directors are selected for their professional, industrial and commercial competence and experience. This probably reflects the experience that civil servants are seldom qualified to operate the corporation on commercial lines. Furthermore, experience has taught that absolute power of either the state or a strong private group may be abused to a degree which paralyses the economic development of the institution.[41]

This observation should not detract from the importance of the services of civil servants in many developing countries. Private sector representatives sometimes have their own axes to grind, so developing countries are well advised to choose board members carefully and discreetly. Civil servants can prevent an undue amount of commercial orientation in public agencies, which have wider social and economic objectives to fulfil. In spite of the criticisms levelled against civil servants it should not be overlooked that for a number of reasons they have a vital role to play in many countries.

First, a civil servant, whether he is from the supervisory ministry or not, is usually in a better position to assess whether an agency is carrying out the official policy laid down by the government. Second, civil servants are generally better qualified to serve on these boards because of their administrative experience and their understanding of public responsibility to the political authorities. Third, they are still among the best educated people in many developing countries. It is not surprising, therefore, for them to carry the boards on many occasions, especially when the private sector cannot provide or is reluctant to provide the services of its personnel.

Another aspect of the constitution of boards is the role played by members of the parliament or national assembly. In a number of states, members of parliament are expressly excluded, e.g. Barbados[42] and Swaziland,[43]

40 Discussions with officials in the Ministry of Trade and Industry.
41 H. Harlander and D. Mezger, *Development Banking in Africa*, op. cit., p. 30.
42 MPs are not only excluded from the IDC, but all other public corporations in Barbados.
43 Section 9 of Act No. 17 of 1971, the National Industrial Development Corporation Act.

whereas in others the head of state or the principal ministers are members of the boards of industrial development agencies, e.g. Tanzania, Guyana and Zambia.[44]

It is not easy to decide whether the presence of members of parliament improves or hinders performance, particularly because the presence of members of parliament on the boards of some of these agencies is fairly recent. Some people feel, however, that if an industrial development agency is to be regarded as an autonomous institution it is better if members of parliament are not included in the board of directors because their very presence might inhibit free discussion, particularly if someone expresses a view that might be unacceptable to the government. Again, members of parliament may be unduly biased towards partisan considerations and thus hamper the efficient conduct of operations. On the other hand, the view has been expressed that these agencies are the principal instruments of economic expansion and progress, and as such they ought not to be free from surveillance. Indeed, active participation of the chief ministers of a government in state-managed systems such as Tanzania and Zambia ensures conformity with national policy orientation.

The problem of divided loyalty will always be present, regardless of the composition of boards. A more important factor is the ability to work as a team to achieve the declared objectives of the agency. Interest groups may endeavour to secure benefits for their members and pursue partisan objectives. The extent to which sectional interests give way to the overall aims and objectives of the agency and the ability of board members to express their views objectively and conscientiously determines the success or failure of an industrial development agency. Yet is such behaviour possible in a world of divided loyalties and group pressures of one kind or another?

Effects of the Exercise of Ministerial Powers on Boards

What has been the impact of ministerial directions or control on industrial development agencies? This question has to be related to the type and objectives of the agency, the attitude of the minister and the government, the quality of board members and the respect commanded by the senior administrative staff of the development agency concerned. It would be difficult to give a straightforward general answer.

Because of the commercial orientation and the legal provisions of agencies incorporated as joint-stock companies in which board members are drawn from the private sector, it would seem that they are given more latitude in the formulation and execution of their policies. Ministerial control is exercised through the directors who have been nominated by government. Such control takes the form of briefings and discussion with board members who in turn keep the responsible minister informed of operations and plans

44 Mr. Amir Jamal is the Tanzanian Minister of Commerce and Industry and Chairman of the National Development Corporation. Mr. L. F. S. Burnham is Prime Minister and President of the Guyana State Corporation and Dr. K. King, Minister of Economic Development, is the Vice-President. Dr. Kenneth Kaunda is President of the Republic of Zambia and President of Zimco.

of the undertaking concerned. In such instances, control and supervision take more subtle forms, and direct government intervention takes place when there is inefficiency in operation or when the budget of the agency has to be subsidized from public funds.

In the case of agencies incorporated as public corporations or limited liability companies where there are no private sector representatives on the board, the relationship of the minister to the board tends to be close. Even in such situations, however, the degree of control is variable, depending on the board, how close these politicians are to the citadel of power and authority, the stature of other board members and the overall status of the agency in the hierarchy of governmental institutions. In Tanzania, Zambia, Uganda, Lesotho and Guyana, for example, the relationship of the responsible minister and the board is almost indivisible, whereas in countries such as Barbados, Trinidad and Tobago, India and Ghana, there is at least some distance from a constitutional and conventional standpoint.

Agencies that require large subsidies or are expected to achieve specific targets or fulfil strategic roles tend to be subject to the greatest ministerial control. The reasons for this tendency are obvious. The political authorities naturally wish to supervise the policies and practices of development agencies that absorb a substantial proportion of national resources and to ensure that in their overall operations the agencies are fulfilling the priorities and objectives laid down in the national plan. As in financial operations, therefore, there is a strong relationship with respect to supervision and efficient operation.

It ought to be recorded that in many interview situations, managers were unwilling to refer directly to particular instances of ministers' putting their fingers in the pie, though the undercurrent seems to suggest that ministerial pressures have been brought to bear in connection with such matters as development projects and labour disputes which involve wage claims and top-level staffing.[45]

In a number of discussions it was reported that the practice of ministerial interference stands in opposition to the independence, flexibility and commercially oriented nature of these enterprises. On the one hand, they are supposedly autonomous and, on the other, they are subject to an array of ministerial controls as outlined above. This situation is due largely to the too frequent overlap between ministerial directions which are intended to govern matters of policy and the day-to-day management of the enterprise. This overlap is the main cause of the suspicion, mistrust and lack of confidence of many managers. It should be recognized, however, that it is not always a simple matter to fix "boundaries" between policy directors and administration, mainly because of the accepted doctrine of public accountability. The whole area becomes even more cloudy when leading politicians serve on these boards, as in Lesotho, where the statute of the National Development Corporation provides that "... the persons for the time being exercising the power and performing the duties of *Prime Minister* of the

45 These points emerged in discussions in a number of countries in the Caribbean and Africa.

Government of Lesotho, who shall be *chairman* of the board of directors . . ." and further that the Minister of Finance and the Minister of Economic Development shall also be ex-officio members.[46] Under such conditions it would be impossible to draw any line indicating where the powers of the government end and those of the board begin.

Industrial development agencies—even if incorporated as limited liability companies—are not self-contained bodies insulated against political directions, and, therefore, it would be inadvisable to separate finely the respective responsibilities of ministers and boards, especially in small developing states where relationships are more "face-to-face" than in developed societies. Even countries with longer experience in public enterprise administration find this an area of conflict. For example, the Ministry of Transport in the United Kingdom in its evidence before the Select Committee on Nationalised Industries, which examined "Ministerial Control of Nationalised Industries", indicates that these

> . . . industries cannot function as self-contained (units) entities. Both Parliament and the Government must be closely concerned with the conduct of businesses which form an essential part of national social fabric and touch so directly on the day-to-day life of the ordinary citizen. The industries and the ministry are, in fact, both serving a common end and have no exact boundary line between their functions. The need is, therefore, to establish satisfactory working relationships on the basis of experience and informal consultation, within the broad framework laid down by Parliament.[47]

This is sensible and desirable, but it must not be over-looked that unnecessary interference in day-to-day management and pettifogging, as was reported by a number of agencies, can have deleterious effects and undermine the morale of board members.

Of course the exercise of ministerial authority is neither always good nor always bad, as the circumstances in individual countries vary considerably, as do the attitudes of individual ministers and the management of industrial development agencies. The central question for development agencies and, indeed, for public enterprise generally, is how best to combine progressive modern business management with sensible methods of public accountability. It implies, in some ways, an attempt to reconcile two quite different, almost opposing, concepts. Difficult as it seems, the tension could be mitigated by a government's setting out either in the development plans or in annual budget speeches the broad objectives of the industrial development agency, leaving the management of the agency to the board and its officers. If the minister wishes the board of an enterprise to change its policy or to undertake specific tasks which will seriously affect its finances, its efficiency, or the success of an industry, then as D. N. Chester (in his evidence before the Select Committee on Nationalised Industries in the

46 Part II, Sections (a), (b) and (c) of National Development Corporation, Act of Lesotho, No. 20 of 1967.

47 Select Committee on Nationalised Industries: Sub-Committee A, "Ministerial Control of Nationalised Industries," Minutes of Evidence of Thursday 29 June 1967, H. M. S. O. 440 X, p. 412.

United Kingdom on 20 July, 1969) suggested, " . . . he (the minister) should be required to make his role public whether by statement in the House or by a general directive."[48] This point was also made by the Select Committee on Public Undertakings in India.

The insistence on such statements or directives may obviate, or at least contain, the subtle forms of consultation and lunch-table discussion that aim to change policy or influence administration without the corresponding responsibility. Furthermore, boards should be encouraged to adopt a more independent and vigorous (as opposed to passive) attitude in meeting the aims and objectives of the agency as expressed by the government and not to subvert policy directions by adopting shady suggestions from politicians. This, it must be conceded, is not an attitude that can be easily taken by members appointed by a minister or president, especially when they happen to be party supporters, sympathizers, or even businessmen who have their own interests to look after.

Administrative Structure below Board Level

The head of the administrative staff is called the general manager/manager/managing director and is usually an ex-officio member of the board with or without the right to vote.[49] The principal duties of the manager are to tender advice, implement the decisions of the board, co-ordinate the functions of the agency, advise on staff selection, supervision and training, and generally to carry out the responsibilities connected with the overall administration of the organization. Ideally, he should be a model civil servant who has the right or obligation to give advice and opinions and disagree with his chairman or board, if warranted; but ultimately he must effect the decisions of the board in the most expeditious manner, regardless of whether or not his advice was taken.

The extent to which managers in industrial development agencies are free to carry out their executive duties depends on the type of minister, the nature of the board members and the chairman, and the calibre of the supporting staff. If the minister is an individual who wishes to have a hand in everything, the tendency seems to be that the manager as well as the board is a mere rubber stamp for administrative respectability. Such practices are seen especially in an agency dependent on subsidies. On the other hand, if the minister is "soft" (a very unusual circumstance in developing countries), key members of the board can have their own way, especially if the member concerned has strong influence and his political party is in power.[50]

In a number of industrial development agencies it was pointed out that

48 D. N. Chester before Select Committee on Nationalised Industries: Sub-Committee A, "Ministerial Control of Nationalised Industries," op. cit.

49 In the IDC in Jamaica, he has a vote, whereas in Barbados he sits in an advisory capacity.

50 Here again we regret that specific references cannot be quoted because of the necessity to maintain the confidentiality of our sources in information. Sources are quoted when they have been documented and made public.

boards take on responsibility for matters which in a well-run business are the province of the chief executive officer. A typical example has been reported by Guthrie and Mulhall, consultants of Urwick, Orr and Partners, who reported that in the case of the Rice Marketing Board and Rice Development Company in Guyana

> too often the Boards spend time which should be devoted to top management policy decisions, discussing matters of minor details referred to them by a senior manager who has insufficient delegated authority to deal with the matter himself.[51]

This observation, though made in respect to Guyana, is a fairly generalized phenomenon in the West Indies, Latin America and Africa. Such practices deprive senior managers of opportunities for taking responsibility and as a result their initiative is suppressed and the spirit of innovation and general motivation dampened. When the board is weak, however, and the manager has strong political connections (or is a political appointee) or is strong-willed and reasonably well qualified, it is more likely that he will get his own way in a number of matters. These variable patterns obtain to a lesser or greater degree in development agencies in the countries examined in the survey.

Another observable problem was laxity in the allocation of responsibilities. In many instances we found that there was no clear chain of command so that staff did not know for sure to whom they were responsible or they were responsible to more than one divisional head or sub-manager. The prevailing state of affairs is attributable, in a large measure, to the scant attention that has been given to job classification and a rational division of responsibility for a block or area of services. The resulting effect has been the growth in the centralization of responsibilities especially in some of the smaller countries.

Many factors account for this behaviour. First, there is the historical element. The public services of a large number of these countries were shaped in the colonial era and their organization and functions still suffer, or at least bear, some of the colonial hangovers. One of these features is the style of political leadership which maintains a hierarchical structure with limited participative opportunities. Because of this administrative inheritance, many of the ministers wish to be kept informed of what goes on in public enterprises, and as a result, there has been too much centralization due to the reluctance of some ministers to delegate authority. G. E. Mills has found that "Ministers have been accused of 'bogging themselves down doing the proper work which should be done by civil servants' and of behaving as if they were permanent secretaries."[52] This remark, though made with particular reference to administration in central government, is indicative of the attitude of ministers who more often than not tend to control

51 Report on Rice Marketing Board and Rice Development Company by Urwick, Orr and Parners Ltd., 12 August 1966.

52 G. E. Mills, "Public Administration in the Commonwealth Caribbean: Evolution, Conflicts and Challenges," *Social and Economic Studies* XIX, 1 (March 1970), pp. 5-25.

and supervise closely statutory bodies under their portfolio. The prevailing style sometimes permeates the board and management structure and develops a cancerous chain effect so that the senior officers are unwilling to delegate responsibility and as a consequence junior officers take the line of least resistance. Such situations, which allow for "passing the buck", can hardly engender a sense of responsibility among staff, especially in the middle and junior levels of management. Furthermore, such situations lead to distrust among staff.

Second, some managers and staff of industrial development agencies are fearful of expressing their opinions or criticisms, lest they "fall out of grace" or be found "at fault". They tend to become over-cautious and at times even afraid to discuss the working of the agency with outsiders. Third, there is not enough scope for planning and the setting of targets from within the agency because everything flows from the minister or the government. This leads to a state of affairs in which the development agency may be pushed to the position where it expects something to happen rather than plans for desired goals. Fourth, there is the fairly generalized phenomenon that the higher levels of the administrative machinery become cluttered up with many petty problems which could be dealt with by junior staff. This situation may be due, as Manfred Nitsch points out, to the traditional tendency in many developing countries not to delegate decision-making authority downwards but to push decisions upwards.[53] The consequence has been that managers at the senior level have been bogged down with routinized matters and thus are not free to concentrate on top level matters.

What are the reasons for this apparent inadequate delegation of authority characteristic of administration in many developing agencies? It would seem that managers fear to expose themselves to new ideas and methods, lest their own positions be undermined. As a result, there is distrust of subordinate staff who are not permitted to be involved in the decision-making process but are allowed to undertake responsibilities only of a routine nature. The conclusion that one can draw from this type of behaviour is that there is little or no appreciation of modern management techniques in a large number of agencies.

Over-centralization and its attendant problems also stem from not defining objectives and rationally allocating responsibilities at minister-board level and board-manager level. I am aware of the political and administrative implications of finely defining areas of responsibility, but I wish to emphasize that once an agency has been created, its objectives and goals defined and its relationship with other administrative agencies (e.g. planning board, parent ministry) established, it should not be treated as a subordinate body subject to day-to-day interference and control. Unless an industrial development agency is given a certain measure of administrative autonomy—the manager given requisite executive authority and respect and his supporting staff trusted—its overall efficiency will tend to deteriorate.

53 Manfred Nitsch, *Entwicklungsfinanzierung*, op. cit., p. 27.

The authoritarian pattern of management that obtains in quite a number of development agencies should be "decolonized" to give subordinate staff a clear indication of what is expected of them. They should, for example, be given the necessary latitude to undertake their assigned tasks—even if it means making mistakes, for trial and error cannot be eliminated at the present stage of development (if ever). The delegation of responsibility to middle and junior management will facilitate a measure of autonomy and flexibility and leave senior managers to concentrate more on policy and matters requiring attention at a higher level. With a policy of decentralization it will be essential to ensure, for the purposes of co-ordination, that consultation takes place—upwards, downwards and sideways—so that blockage of communication is lessened and long-run accountability is safeguarded. The success of such administrative reform will, however, depend on the nature of the staff available to these agencies, and the standard of performance, in the final analysis, will be determined by the quality of the personnel.

It is sometimes overlooked that economic development, particularly in the developing countries where the problems are more marked, requires a class of exceptionally able people to provide the dynamic leadership that is needed. One of the main problems is the acute shortage of qualified and experienced technologists and administrators. Plans for administrative reform and higher levels of performance in industrial development agencies will not be successful, therefore, unless they are accompanied by efforts to recruit the best qualified, even if it means getting them temporarily from other countries, and unless adequate facilities and opportunities are provided for the training and education of existing staff. Awareness of staff development is widespread and the nature of the problems is well summed up in the Sixth Annual Report of the Chairman of the National Development Corporation of Tanzania when he said that:

> Indeed, the greatest single threat to the Corporation's continued progress lies in its lack of professionally-qualified and experienced middle and senior management. This deficiency can have several harmful effects, not the least of which is that the few experienced officers bear an unrealistic workload which often precludes them from having time to make adequate analyses before taking decisions, and work with, train and encourage their subordinates.[54]

Adequate training facilities are a *sine qua non* of a progressive development policy and countries that neglect this aspect of development do so at their peril.

54 National Development Corporation of Tanzania, *Annual Report* (Dar es Salaam, 1970), p. 18.

Control Versus Autonomy in Improving the Management of Public Commercial Corporations in Developing Nations

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It is no longer adequate to describe the role of public corporations in the economies of developing countries as "important"; their role can only be accurately described as "vital". Public corporations in developing countries now handle most of the important exports; they control the banking systems and insurance; they are pioneering industrial as well as commercial agricultural development; they control important services like electricity, railways, harbours, etc.; and more recently they are grappling with the importation of the more important goods and commodities. Their efficient and successful management is, therefore, of supreme importance to the entire population of Africa. There are continuing and sometimes heated debates all over Africa about their management, as well as unplanned and often disastrous experimentation on the scope of their activities.

A realistic understanding of the managerial problems to be confronted in running these new vital bodies is, therefore, extremely relevant at this time in Africa. The continued growth of developing nations in Africa depends to a very significant extent on how efficiently the mushrooming public corporations are managed.

I must state right at the start that in setting down these thoughts I am drawing mostly from my own personal experience both as a permanent secretary of a ministry which had a number of public corporations under its umbrella, and later, as a full-time executive chairman of a public corporation in Uganda. Naturally, therefore, my experience and understanding may be more relevant to Uganda, and yet I have read and discussed fairly widely on this matter. I have chosen to confine myself more specifically to public *commercial* corporations because the field of public corporations is becoming very wide and complex. Nevertheless, I think that many of the problems discussed are relevant to a large range of public corporations.

In this paper I shall try to analyse the peculiar features that make the management of commercial public corporations significantly different from that of purely commercial enterprises. I shall also discuss whether more control or more autonomy is required to improve the management of public corporations.

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