

## CONTROL IN THE PARASTATAL SECTOR IN ZAMBIA

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The distinction between statutory boards and state corporations is not purely legal. The fact that the former are a product of a parliamentary statute facilitates direct control in every respect, whereas the state corporations are covered only by the Companies Act which is a conventional company-type law providing for ordinary registration and protecting the autonomy of companies.

The style of operation in the state corporations and the degree of state intervention is quite different than in statutory boards. This is a matter of basic policy, but it is also a consequence of the persistence of minority interests and, in some cases, management agreements, or the residual presence of managers from the former private company. In any case, the expectation is that state corporations should generate profits and dividends in the conventional private enterprise manner. Those corporations in which the state has majority shareholdings could easily revert to private ownership merely by the sale of some shares to a private partner. This would not require any amending legislation.

The different legal status of the boards and corporations are more than formal niceties and actually have a profound effect on the way management carries out its functions in each arena. Whereas boards provide a social service, state corporations are definitely encouraged to think of themselves as conventional companies primarily concerned with making a profit.

Despite the socialist protestations of government and officials alike, it seems unlikely that these corporations could fit into a socialist centrally-planned economy. Furthermore, it is wholly inconceivable that minority shareholders might coexist with the state in a parastatal complex as large as Zambia Industrial and Mining Corporation Ltd hereafter referred to as ZIMCO without resisting any socialist thrust in the economy, we are not here concerned with an isolated firm but with the major economic entity in Zambia where, apart from the minority holdings, there are already a large contingent of expatriate managers who may not necessarily support socialist policies.

There seems to be a contradiction at the systemic level between a major capitalist enclave, e.g. Anglo and Amax, amidst the commanding heights of the economy and any attempt to introduce socialist-oriented policies through state enterprises.

### State corporations

The most controversial section of the economy is that of the state corporations, which is also the largest. The essence of the state corporation is that it was not set up by statute and that it operates more like conventional holding companies and enterprises. They have an independent legal existence and may sue and be sued independently of government.

State acquisition has been achieved by purchasing shares and the ownership control derived from the accompanying voting rights and seats on the relevant board of directors. While government appointees are in top positions in most corporations, the degree of actual control varies. In some cases there is a large minority shareholder, for instance in the copper-mining giant, in others there are other factors which limit government control. Furthermore, it is now well accepted that by merely ensuring a majority on a board of directors or even the full board, total control is not necessarily achieved.

As indicated earlier, the character of the state corporations is a fundamental issue for the economy. It is therefore necessary to trace some of the most important developments in order to assess the rationale behind them as these institutions changed. Since ZIMCO was founded in 1970 the corporate structure has changed several times, with the most recent (in 1978) being the most fundamental. There were formerly a series of wholly state-owned sub-holding group companies, each with operating subsidiaries where ownership might be mixed. The sub-holding companies were chaired by a minister who had functional responsibility for the operations of companies, and provided a link with his ministry and thereby to national planning. The ZIMCO board comprised the chairmen and managing directors of the sub-holding companies. The main board itself was initially chaired by the president and then by the prime minister. This alone indicates the importance attached to the ZIMCO complex by the government. The president appointed all the top managing directors. No doubt, he retained these powers in order to ensure the adherence of appointees to the political line of the party and its government and to his office. This was particularly important as the state take-overs were highly controversial and incumbents came under great pressure from minority shareholders and the business community generally. In addition some of the policies adopted by the government for the state corporations were unpopular, like price control and subsidies, and the president wanted to ensure that the managers would carry them out. In fact, many have been moved around in order to ensure compliance, or so it seems.

The structure was rather complicated. Each subsidiary had its own board of directors but the managing director of the holding group such as Industrial Development Corporation Ltd (hereafter referred to as INDECO served as the chairman wherever the state had a majority interest. By these means a chain of appointments was established from the president down, attempting to establish consistency of policy throughout.

These political appointments were not based on any legislative provision, however. Even the memoranda and articles of association did not provide for interest group representation. (The exception is Nchanga Consolidated Copper Mines Ltd, NCCM, and Roon Consolidated Mines Ltd., RCM, where government and private directors are known as 'A' and 'B' respectively and certain provisions are attached thereto). The mechanism applied was control by majority shareholding which enabled the hierarchy of government appointments to be effected, despite the fact that each board was required to select one of their number to serve as chairman, deputy chairman and chief executive respectively.

Formerly government control was reinforced by the appointment of permanent secretaries to many boards and by the presence of the permanent secretary of the ministry of finance on many boards. In 1975 it was estimated that the ratio of INDECO's

interests to minority partners was almost two to one. The figure for 1978 is closer to 84 per cent of total assets based on a calculation of state shareholding of each large enterprise. In 1975 the number of central government and parastatal enterprise employees on boards were: INDECO 75 %, RDC (Rural Development Corporation Ltd.) 66.7%, NCCM 54.5%:

Another source of public servants on the governing boards of directors arises from the prevalence of interlocking directorships, whereby a permanent secretary, managing director, or the governor of the Bank of Zambia may sit on as many as six boards of directors of different companies.<sup>1</sup>

Political control was therefore substantial and was sustained by:

1. ensuring a majority of directors;
2. placing public servants on boards;
3. a system of block voting by government appointees;
4. by the appointment of the minister and permanent secretary as chairman.

To complete the picture, President Kaunda personally appointed the chief executive officers to these boards even though the articles of association vests this power in the boards themselves. However, the majority mechanism enabled this to be carried through. (He also suspended two managing directors of FINDECO (Financial Development Corporation Ltd.) operating companies.

There was a continuing dialogue and consultation between the president and managing directors and between the managing directors and ministers which constituted 'control by informal means'. This was facilitated by the policy of Zambianisation of top posts. Political personnel like ministers could intervene directly in the affairs of boards thus ensuring that the political objectives of the government were pursued.

Some state-controlled mixed enterprises, even though not obliged, and in some cases specifically protected by law, have at times undertaken government-favoured programmes (like training Zambians), which were in fact clearly unfavourable to the interests of minority shareholders.<sup>2</sup>

There were frequent conflicts of interest between government goals and the interests of private capital which is why the take-overs took place. Conflicts arose over the pressure to Zambianise, over the replacement of top foreign management, over the policy of reorienting some branches of production to suit local needs, of support for local industries and the use of local raw materials, of diversifying away from traditional sources of machinery and industrial inputs and with attempts at breaking the dependency links with the former parents abroad. In many cases the national interest required that certain steps be taken to safeguard the economy or security, steps that business was unwilling to undertake. Zambia has not been in a state of real peace since independence. While the country never actually declared war on Rhodesia or South Africa, there have been continuing troubles which have badly scarred the economy. Admittedly, politicians have frequently blamed the south for problems which were internal to the Zambian system, but it is also true that the external problems have touched on every aspect of the life of Zambia and the disruption has been enormous. Safeguarding the national interest has been a state responsibility often conflicting with private interests. A good illustration was the take-over of the petroleum products in

the storage tanks of the Ndola Oil Storage Company Ltd. (NOSCO) on January 18, 1980.

The previous arrangement had been that the government-owned Zambia National Energy Corporation (ZNEC) was the sole importer of oil into Zambia which was then sold to NOSCO. From there it was sold to private distributors around the country. NOSCO was owned by Shell (Dutch), British Petroleum (which had been deeply involved in breaking oil sanctions against Rhodesia), Mobil, Caltex (all USA), Total (French) and Agip (Italian). Although the Zambian Government owned 51% of Shell, B.P. and Agip, the only Zambian on the board of NOSCO was the representative of Tanzania Zambia Pipeline Ltd. (TAZAMA) which actually brought the oil up from Dar es Salaam harbour.

The government explanation for the take-over was that it was unable to influence the decisions of NOSCO even though vital issues were at stake. It was essential for the storage facilities to be expanded in case of an emergency, such as the blowing up of the pipeline in Tanzania some months earlier. NOSCO had persistently refused to do so on the grounds that it was not 'commercially viable'. Profits therefore stood in the way of an essential development from the government's point of view.

A further consideration was that the cost of oil imports into Zambia soared from K18.8 million in 1972 to K76.2 million in 1977 and continues to rise dramatically. It was considered necessary for "the government to have direct control of the refined petroleum stored at NOSCO from whence it will be sold to the marketing companies for distribution".<sup>3</sup>

The point is that a siege economy like that of Zambia may be obliged to undertake nationalisation on security and strategic grounds and not necessarily for ideological reasons and in the face of certain protests from the IMF, World Bank, and the British, Italian, USA and French governments. For similar reasons there has been a clear move to appoint Zambians to top positions even in the most technological industries (e.g. in NCCM and RCM) in an effort to ensure that national interests prevail over foreign and that the president's conception of the supremacy of the public sector over the private will be upheld.

There is many an indication that many Zambians are willing or unwilling instruments of foreign and local private capital. But it is also evident that the government can exercise far more control over Zambians than over foreign nationals in top management positions. There can also be no doubt that the government has far greater command over the parastatal sector than over private businesses. For instance, although the state corporations have a separate legal persona (their powers to sue other parastatals were withdrawn in 1969) and have financial autonomy—they appoint their own auditors and their accounts are not supposed to be directly subject to parliamentary scrutiny (unlike the statutory boards) parliament nevertheless insists on access to their accounts. Originally this was only done when a particular company obtained a state loan or grant, but by 1980 it became required practice for all state corporations to table their annual reports in the assembly, though this has been objected to by ZIMCO. They are in any case obliged to submit annual reports under National Assembly Standing Order 79(2), 1974 editions, Republic of Zambia. There is also provision for discussion under the various votes of government expenditure. But parliament has never held a

full-scale debate on the parastatals, nor has a coherent policy been laid down for them by government. State supervision is based on institutional networks. In the absence of such a policy and of systematic public accountability, speculation about mismanagement and misdirection of effort is rife and rumours about the misappropriation of funds common.

This was why parliament appointed the Kayope Commission to investigate anomalies in the parastatals. The commission found numerous cases of misappropriation and other irregularities but nothing happened to improve the mechanisms of public control which might have led to greater efficiency and honesty. This is probably because of the fundamental hostility of the chairman to parastatals as a matter of policy. In a debate in parliament he said, "the capitalists (are) the only people who can bail us out . . . socialism . . . has ditched us as a country economically".<sup>4</sup> In the context of Zambia, accusations of 'socialism' are often really an attack on the parastatal policy and of government intervention generally.

Some writers on the subject believed that government intervention in state corporations is substantial and on the whole corrosive. It went beyond prescribing policy objectives and cut across operational freedom. Government prescribed projects and programmes, insisted on selecting locations, appointed and dismissed personnel, laid down conditions of service and set pricing policies and levels. They advocated freedom for the corporations in the choice of means in the pursuit of government-identified ends.

Many of the above findings supported the earlier research of Chaput who was a senior official in a state corporation. Chaput recorded that:

the Zambian government has a commanding role in the rule and decision-making operation of state enterprise. It also plays a major role in day-to-day operations, although this aspect of government participation in corporate activities has yet to be explored.<sup>5</sup>

Chaput considered that this control was direct and effective. Simwinga called it 'derived control', emphasizing the buying in aspect of 51 per cent take-overs. Both believed that 'political interference' was a major feature of the system.

For instance, since INDECO was seen by the government as the "spearhead of the government for the implementation of a dynamic policy of industrialisation", the president gave INDECO a watchdog function over the national interest in industry. Clearly, the chain of appointments set out earlier would support such a contention. The agency of Zambian managers and block-voting was effective at 25 INDECO subsidiary company board meetings attended by Chaput. He argued that government appointees follow government policy while private shareholders follow purely commercial goals. The result was built-up of 'interest conflict' which has contributed to inefficiency and the failure of the mixed ownership corporations to attain their objectives.

If Chaput was right, this would explain why the promised benefits of nationalisation which were supposed to accrue to private shareholders as well as the state did not materialise. Although many state corporations eliminated competition and set up a monopoly, the very large turnover did not lead to equally large profits. Instead inefficiency flourished and the lack of direction did nothing to make up for the problems induced by the national economic crisis. Naturally, many observers argued that state corpora-

tions would never work. However, the speedy take-over of so many large companies would necessarily create vast problems in a country so short of indigenous industrial experience, but there is no clear evidence that there is anything inherently wrong with the conception of state control. Where things went wrong, it was more to do with the particular mix of private and public interests chosen in Zambia than with an incapacity to manage the economy. Admittedly, this view is biased by an ideological preference for state control but the performance of the mixed economy is clearly not a success.

The Zambian government seems to place considerable store by the participation of minority interests in the parastatals and the chairman went out of his way to say that the majority of the partnership companies in 1977 were profitable.<sup>6</sup> But performance in 1979 can be seen to be less clearly related to mixed ownership. In his report to the 8th October, 1979 National Council Meeting, President Kaunda distinguished between the good and bad performers among INDECO companies. It is often claimed that those companies with a large private interest are the most profitable, but the data tends to confound these assumptions.

GOOD PERFORMERS (govt. share in brackets)	Turnover (Km)	POOR PERFORMERS	Turnover (Km)	Pre-tax Loss
Kafue Textiles (70%)	17.2	Zambia Sugar (51%)	30.0	K11,328,000
Zambia Steel & Building Supplies (100%)	20.5	Zambia Clay (100%)	0.7	K2,658,000
ZAMOX (51%)	6.4	Chilanga Cement (51%)	10.7	K3,280,000
Supa Baking (100%)	15.5	Kapiri Glass (65%)	3.3	K2,017,000
Eagle Travel (51%)		National Milling (51%)	54.5	K2,297,000
Kafue Estates (100%)	1.4	Livingstone Motor Assemblers (70%)	5.2	K1,028,000
LENCO (100%)	6.5	—	—	—

Source: President Kaunda, address to National Council, 8-10-1979; *Daily Mail*, 10-10-79; and INDECO Report 1977/8.

Among the good performers those with the largest turnovers are predominantly state-owned, showing that state corporations can do well. Among the poor performers the largest loss is to Zambia Sugar which is 51% state-owned, and those with minority shareholdings are prominent.

This data shows that it is extremely difficult to correlate private participation with performance. Furthermore, in the pre-1978 structure there was a major built-in contradiction in that the group holding companies were all fully state-controlled while there was mixed ownership at subsidiary level. Government interventionism in pricing policy,

Zambianisation, etc., was also strong so that it was difficult to isolate and assess an individual company.

Even in the much more streamlined structure adopted in 1978 the basic contradiction remains: the state controls the ZIMCO board, and government imposes certain policies, so that there is no pure autonomy at enterprise level. Calls for greater autonomy are repeatedly made by local settler entrepreneurs and private businessmen generally, and the government periodically agrees but, in actuality, nothing changes. The victims of state take-overs argue that their remaining minority interests are worth little, that there is no scope for their continuing participation in the business and that government takes all the important decisions. They concede that the economic crisis has affected all business, and that it would be unrealistic to expect the same returns they received in the early 1970s when enterprises were still making profits which also accrued to the minority shareholders. Nevertheless, minority shareholders are deeply disenchanted, blaming government's political and administrative intervention and inefficiency. They also complain that the government's price control-policies have bitten deep into profits and this has affected several important firms, e.g. Zambia Sugar, National Milling.

Some of the smaller shareholders claim that they have virtually written their holdings off but this is obviously not the case with the multinational corporations who maintain very substantial capital interests in the parastatals.

There is certainly many a clash based on the pursuit of state goals as opposed to purely business considerations of profitability. Given the absence of a centralised planning mechanism, political interference tends to take the form of a presidential decree or an *ad hoc* ruling by a somewhat less informed member of the central committee who happened to take an interest in a particular enterprise.

The remedy lies not in ignoring social goals but in strengthening the kind of planning which would give greater coherence to Zambia's industry. Also, since the parastatals are encouraged to exude the atmosphere of private entrepreneurship, the sense of national commitment is displaced by individual careerism which in the Zambian context means higher salaries, more privileges, and a concern for personal mobility. In this atmosphere it has proved to be very difficult to introduce a corporate spirit and commitment to the success of the enterprise or to the parastatal complex as a whole. The conflict between state promptings of the national interests are seemingly impossible to reconcile with the ethos of profit-making in what remains a fundamentally capitalist economy. Resistance to state policies remains substantial within the very enterprises where the state has a preponderant presence.

I would argue therefore, that it is not that 'politics' gets in the way of business that is to blame, but that the 'politics' is spasmodic, it is not institutionalised, and cannot root itself within the enterprises because of a persisting conflict of interest. An important factor is that the workers in the enterprises cannot be expected to identify with a management which represents private interests as well as those of the state, and which so clearly adopts bourgeois values in its operations.

It cannot have escaped the attention of the workers in parastatals that at a time of financial stringency, the management have continued to gain ever more privileges, to enrich themselves in dubious ways, and that the gap between rich and poor continues to widen. Clearly the continuing influence of private interests and the commercialism

of the state corporations is not conducive to generating that kind of commitment from the work force which might generate a corporate spirit embracing all employees.

Since private interests necessarily pursue profit above all else, they tend to obstruct even the minimal efforts of the state to focus on production which is in the national interest and to create an integrated national economy. Furthermore the presence of these interests and those who are ideologically in agreement with them leads to the confusion of the meaning of the concept 'making a profit' in a mixed economy. For them, it is purely a matter of deriving profits in the capitalist sense and which can be achieved in many ways including producing shoddy goods, or luxuries for the rich, or cheating the public. Whereas for the state, 'making a profit' has much more to do with cost-efficiency and generating a surplus in the public accounting sense. These are complex issues which are unfortunately glossed over in the parastatals so that the advocates of social goals seem to be going against the conventional wisdom on 'profitability' as the supreme criterion of achievement.

The differences between parastatal and private companies are many notwithstanding the attempts by parastatals to adopt the style of private enterprise. Among these differences are the appointment of state bureaucrats who are by no means qualified for the post and not professionals. Managers of banks are not bankers, managing directors of enterprises have no real management or business experience, and this affects the efficiency of the firm without leading to the fulfilment of state objectives because these objectives have not been clearly laid down by government.

Parastatals are nevertheless not generally allowed to operate on free market principles. Many products are price-controlled, and despite numerous public declarations about the importance of profits, profit is not always the primary motive in state parastatals. Other considerations which may come first are connected with development needs or with social benefits. For example the National Commercial Bank has opened more branches than are economic in response to party pressures. Other agencies act similarly, for instance the State Insurance Company opens branches in small towns which cannot be economic for some time ahead. They do so either out of a recognition that they have an obligation to do so since they are a monopoly in the field, or in response to pressures from above.

There is a strong belief that in fact non-economic considerations are dominant in decisions taken by this kind of body.

The governor of the Bank of Zambia, Mr. J. B. Zulu, explained the difference between an expatriate bank and the state commercial bank as taking a different approach to the 'profitability criterion' and the importance of 'meeting social needs' such as opening branches 'before they become viable units', extending credit to 'the small and medium trader, the new and struggling entrepreneurs, the small farmer who is crossing the subsistence stage'. The policy included 'Lending on the basis of character and integrity of the borrower, his earning power, and repaying capacity rather than mere security.'<sup>7</sup>

## **A new restructured ZIMCO**

The ceaseless criticism of the parastatals ultimately led to a major change of policy. In a surprise announcement in parliament on 18th December 1978, President Kaunda declared as follows:



I will appoint the ZIMCO board which will be chaired by the prime minister. It will be made responsible for the appointment of all managing directors, general managers or chief executives of the subsidiary corporations. The ZIMCO board will also appoint the government's members of the boards of directors of its subsidiaries.<sup>8</sup>

The president also announced that he would appoint the executive head of ZIMCO and the party would be represented at deputy chairman level by the chairman of the party's economic and finance sub-committee of the central committee. ZIMCO would retain two relatively autonomous sub-holding companies, INDECO and NIEC, the manufacturing division and import and export division respectively, but that all the other group-holding companies would be abolished and that all subsidiaries would become directly responsible to the ZIMCO board.

The structure makes ZIMCO unique in Africa if not in the world. The main object of the restructuring was to give enterprises greater autonomy in their day-to-day working and to deprive ministers of their former role. They were effectively removed from the whole parastatal complex which became virtually independent of the ministry structures and government departments.<sup>9</sup> ZIMCO headquarters was given full executive powers over all the subordinate bodies which embraces 117 companies. The four top officials of ZIMCO replaced the ministers and permanent secretaries as chairmen of the principal subsidiaries and they have responsibility for their performance. The director general has responsibility for the mining companies, the executive director, corporate planning and administration has responsibility for the financial companies; the executive director, industry and commerce, and the executive director, transportation and energy, have responsibility for the relevant sectors. Apparently, agriculture which has 14 ZIMCO companies, has no specific person responsible. The impression is that these four executives actually physically chair many of the 117 companies, "they are always at meetings". At the time of writing, the system had not yet settled down, but the expectation was that there would be a much better flow of information and decision between the enterprises and the ZIMCO board. Several other rationalisations were carried out especially in transport and hotels, to facilitate this process.

The board of ZIMCO was wholly reconstituted of persons who were not involved in the subsidiary levels and therefore not answerable for them. The hope was that this would lead to a more objective assessment of performance than formerly when ministers tended to defend their own companies at ZIMCO board meetings and in parliament. It was suggested that they found it difficult to combine their roles as cabinet ministers and head of a ministry, as ZIMCO board member, with that of chairman of a ZIMCO company. The new board, therefore, consists of more 'objective' personnel and includes the minister of finance, the ZIMCO director general, the governor of the Bank of Zambia, the economic advisor to the president and three private businessmen, making a total of nine.

Another important development was the incorporation into ZIMCO of several statutory boards: Zambia Airways Corporation, Rural Development Corporation, and Posts and Telecommunications Corporation. In the words of the president they had become "an undue burden on the tax-payer and can be rendered self-supporting and profitable."<sup>10</sup>

Perhaps it is premature to make categorical judgments about these developments but a number of important questions can be raised:

1. Since the number of enterprises in ZIMCO are constantly expanding, there are already a very large number of very big companies, how can a small directorate possibly supervise them?
2. Since each company is required to prepare its own budget how can these be consolidated into a coherent ZIMCO budget in any way other than the mere aggregation of individual accounts?
3. Since each company is now a separate entity and removed from ministerial jurisdiction how is it to be influenced by national planning criteria? The system must frustrate the functions of the National Commission for Development Planning (even though it is now chaired by the president himself) since the commission functioned through the ministries, yet planning is meant to be vital in the fulfillment of the Rural National Development Plan.
4. Greater autonomy for the parastatals must seriously weaken the ministries which will become mere hollow shells. This means that the cabinet itself will lose much power and that the political influence of the ministers who are normally important politicians will be seriously undermined. They are replaced by the relatively non-political ZIMCO board. The system is much closer to that of a capitalist corporation than to conventional socialist models where ministries which operate under enterprises perform vital controlling functions.
5. Since emphasis is now on efficiency and profit-making at enterprise-level how can individual efforts be combined and integrated to give the whole of ZIMCO a special character? The perspective of the director general is that 'planning and control systems should be structured around areas of responsibility . . . these systems will act as positive motivators by encouraging responsible managers to plan and control their performance.<sup>11</sup> This is the ethos of corporate planning from below which reflects the views of a senior executive that planning from the top "as in the East . . . is the biggest danger".

The prime minister has said:

Indeed, lack of co-ordination among parastatals is appalling. It looks as if each company operates according to the slogan, 'Everybody for himself and God for us all'. Many companies happily keep importing most of their raw materials and when they are not allocated enough foreign exchange or their deliveries are caught up en route, they prefer to curtail production or even to temporarily close down and thus incur heavy losses, rather than look around for domestic sources of exactly the same or similar raw materials. Very often such raw materials are actually by-products of another parastatal company which go to waste for lack of outlets. But 'Great care must be taken, therefore, to avoid any attempts to over-centralise by Zimco assuming excessive powers over the decision-making and day-to-day operations which must rest with the individual subsidiaries and their respective boards'.<sup>12</sup>

The role for ZIMCO was to adopt strategies for the whole group and the subsidiaries, control-planning, production and finance, promote co-operation among subsidiaries, aid weak companies or dispose of them.

6. Since enterprise autonomy is stressed, albeit the plans and accounts are to be scrutinised at the top, how can government ensure that its social goals are not forgotten? Employment creation, the production of essential consumer goods, ensuring a fair distribution of commodities, all these are basic government policy and are not normally the result of profit-making enterprise. The director-general gave some recognition to this saying, 'There are certain important social objectives we are required to fulfil and often it is difficult to be commercial and business-like and yet fulfil these objectives. It is here that we require the understanding and assistance of government and other agencies'.<sup>13</sup> The point is that a ZIMCO manager who acts according to his mandate is bound to favour profitable lines over price-controlled mass-consumption items where margins are low or even negative.
7. With the removal of all ministerial supervision and the related political pressures, it is likely that business ethics will come to predominate. The previous system had many unsatisfactory features including the personal intervention by central committee members in enterprises where, since their status is higher than that of the minister who might be chairman, their weight was fully felt. But in the new system it seems likely that this kind of intervention may be discouraged in the name of corporate autonomy. It is by no means clear that the public will benefit therefrom.
8. In several speeches in recent years, the president emphasised the need for 'economic prices', cost-efficiency and the reduction of subsidies. It is difficult to see how these policies can be reconciled with the hope that the present trend of falling living-standards can be contained. While earlier practices are hard to defend, it is nevertheless true that despite several years of acute economic depression, the state-protected jobs, ensured the continuing production and processing of mass-consumption foods (though there were many failures too) and consumer subsidies were partly retained. The state also seemed to be carrying on a rearguard action to resist the persistent demands by the IMF, parastatal managers and others to allow prices to rise to an economic level which in the case of maize for instance would have meant a doubling or even trebling of the retail price.

Under the new order, with profit-making the focus, it is likely that parastatals will adopt misguided priorities with harmful effects for the mass consumers.

Worst of all, since agriculture is the most difficult industry to bring to profitability since gestation periods are long and painful, it will be as neglected as ever, particularly at subsistence-farmer level.

Some years earlier, Anthony Martin noted the contradictions in the *Zambian* strategy and he is worth quoting at length. He refers to two criticisms both of which point to the dangers of too much state capitalism:

The first is that of the planning economists, who fear that the establishment of big state corporations may not lead to a more rational deployment of economic resources. These corporations, according to the argument, are neither business firms seeking to maximize profits nor genuine government agencies concerned with the national interest. They are under some obligation to make profits, but they are not constrained by the normal commercial disciplines to the

same extent as private firms. They can use their monopoly profits from one line of activity to subsidize another unprofitable one in ways that need not correspond to the real costs and benefits to the nation. And in general, these hybrids may be able to distort the economy in ways unknown either to the genuine free market corporation or the genuine state planning agency. Thus the investment, pricing and other policies of the INDECO Group as a whole, although they may bear a superficial resemblance to those of a big commercial company, are really nothing of the kind. So far as INDECO is concerned, the main worry of the planners has to do with its attitude to profits in relation to the other possible social and economic benefits of mining development. Should national policy on such an important matter be left to a body which may be chiefly interested in its own balance sheet?<sup>14</sup>

Some preliminary conclusions of a general kind are called for. The 1980 structure is really some kind of de-nationalisation, allowing profit-making to become the principal motive at enterprise-level, displacing larger national goals. There is no possibility that the new structures will enable the emergence of a planned socialist economy founded in a solid base of producer-goods industries. Instead, the existing market demand will determine what is produced, greatly influenced by what is profitable rather than what is essential for development.

The supervision from the top of ZIMCO must necessarily be cursory and ineffective. It will be left to enterprises to ensure that they make profits thus 'providing revenue for the government'. How they do so will be at their discretion.

This scheme constitutes the foundation for a new form of state capitalism where state intervention is minimised and exploitation of the working class, through parastatals, is facilitated. This could be seen as a mechanism whereby the ruling class gets ever closer to a directly profit-based economy with the option of reprivatization open should this be desired. It might even be argued that the only reason the parastatals are not actually sold off is that there are no Zambians with the necessary capital and that selling off to foreign interests would not be politically acceptable.

However, as long as ownership remains in state hands, the extent of exploitation is subject to a degree of popular political resistance. The ruling class has therefore to be content with the relatively marginal pickings through higher salaries and perks, and the multinationals with the profits derived from the transfer of technology and the like. Thus the contradictions built into state capitalism remain.

But an alternative scenario is also possible. Since the top body has so little effective power to mobilise the subsidiaries and the enterprises have so little authority to act on their own in terms of raising loans (most are heavily in debt and have little capital) changing their mode of operation, thinning down staff and cutting expenditures, the whole complex might continue running down. This is a gloomy view, but it is held by some businessmen in Zambia. They see no possibility of the parastatals being salvaged short of re-privatisation, which would of course suit them very well.

A further possibility is that the highly streamlined links of ZIMCO could be used to impose central planning on the whole complex. But for this to happen a minor revolution would be required in the perspectives of all involved.

## **The nature of control**

Much of dependency literature holds that the formal arrangements of control in enterprises in underdeveloped countries are not particularly significant. Nationalisations

are merely cosmetic and real power does not lie with the governments concerned. Alternatively, the governments merely acts as proxy for foreign interests, or in some cases, for local private capital.

Dependency theorists are correct in many of their claims about the illusions arising from the formal controls exercised by the state and it may be useful to break down the concept of control into more manageable components. In Zambia, *ownership control* was achieved through the acquisition of shares, *political control* was attempted by means of controlling appointments to top positions, *operational control* remains the most intractable since the country does not have the management capable of running industry independent of foreign expertise. Clearly this is a serious matter since it greatly affects the implementation of government policies and objectives.

Lastly, there is the issue of *technological dependence* which merits larger treatment than can be offered here. Samir Amin represents the dependency view when he says that technological dependence will tend to replace domination through direct appropriation. "Monopoly of the supply of specific types of equipment, after-sales services and the supply of spare parts, patents, and all the various forms of 'good will' will make it increasingly possible to exact a substantial share of the surplus value generated in an enterprise *without even being its legal owner*. It is possible today to conceive a wholly dependent economy in which industry would still be national, and even publicly owned".<sup>15</sup>

But what dependency theorists ignore is that dependency, like capitalism itself, is not an incurable disease. Even taking Amin's argument, the overcoming of domination remains a possibility creating new political conditions for those regimes which choose to do so.

George Elliott has set out the circumstances of domination of developing countries turning mainly on the way large international companies can affect the allocation of resources within these countries. The corporations tend to set up methods of production which are unsuitable 'especially capital-intensive plants'. They allow wages to rise in their companies which have a lead effect on the other sectors. They also concentrate on products which do not necessarily boost development of the economy as a whole. Furthermore salesmen are more concerned with profit-taking than suitability of products and the foreign firm exploits its monopoly of skill to the full.<sup>16</sup>

In addition to domination, the developing countries are subjected to dependence by controlling the flow of new resources such as capital, export earnings, skills and entrepreneurship in a non-reciprocal relationship. The typical use is where a large international corporation sets up a manufacturing plant in a developing country the terms being usefully dictated by the corporation. Elliott says:

If circumstances are propitious it is sometimes possible to offset the worst effects by negotiating an arrangement by which the government of the developing country owns a proportion of the shares in the manufacturing concern. But this only reduces the domination effect: it does nothing to reduce the dependence effect. Since the government itself has neither the skill nor the finance to erect and operate a tyre factory, an oil refinery, or an integrated textile mill, it is in a weak position to negotiate harsh terms with a prospective investor.<sup>17</sup>

Other instruments of dependence cited are bank credit, aid, the control of export marketing structures and management all of which are non-reciprocal relations.

In my view the issue of control is oversimplified with proponents of dependency theory insisting that control lies with the 'international bourgeoisie' while opponents of this view argue that the nationalisations are genuine leading to 'national' control of the economy. The concept of state capitalism allows for a more sophisticated model. The state achieves a certain dominance in the economy, it is capable of substantial interventions, sometimes in the national interest, sometimes to improve the lives of the masses, and this is only possible because of its acquisition of a powerful position in the controlling bodies of the formerly foreign owned mining, manufacturing and commercial enterprises.

Some dependency theorists even argue that foreign private interests prefer to lose their ownership controls since the state then becomes more involved in maintaining industrial peace, protecting monopoly markets and the like. However, it is stretching common sense too far to say that private capital prefers to lose its ownership control. Naturally, companies will make the best of things when they are faced with threats of nationalisation and, as was the case in the Zambian government takeover of the copper mining companies, they will manipulate matters to ensure maximum benefits for themselves. But there is evidence that even in 1979, when the companies were deeply in debt to the government, they resisted to the full the conversion of state capital into a further 9% share so that the minority interest was reduced to 40%.

Ownership of the means of production remains one of the main objectives of all businesses which is why there are such tremendous struggles for takeover bids in private business with the buying-in partner often paying much over the prevailing market share-price. This is not to say that business requires one hundred per cent ownership, and in some companies even fifteen per cent will suffice to ensure control. But this only applies where the remainder of the shares are distributed widely among small shareholders thus preventing a 'ganging up', to form an apposition within the company. In the case of Zambia, a mere 15% buying-in by the government will not do as the remaining shares are generally held by a single foreign corporation.

This is why the formula has generally been a 51% takeover which has then assured state control. But, as long as no statutes are involved, formal control by the state is not irreversible. The mere release of some shares by the government will allow the company to be reprivated. For instance, since most ZIMCO companies are heavily undercapitalised, it would be easy for them to turn private loans into shares. However, it would be fair to say that for whatever reason, there are no signs that this is under way. On the contrary, the state seems to be increasing its hold. In 1975 it was estimated that the ratio of INDECO's interests to minority partners was almost two to one. The figure for 1978 is closer to 84% of total assets based on a calculation of state shareholdings of each large enterprise. President Kaunda claimed in a speech to the national assembly<sup>18</sup> that the parastatal sector was 80% of the economy, though he did not indicate the size of the minority interests within the parastatal complex. This large stake in the economy would seem to be enough to give the power to press some of its stated objectives such as Zambianisation, employment generation, economic diversification and rural development. Other objectives mentioned in speeches by the president include a desire to break the hold of private foreign ownership of the means of production, overcoming inequalities, and the disengagement from the racist regimes of the South.

Yet the achievement of these objectives is far from realisation. The third national development plan has some hard things to say about past performance. The plan records "a precipitous fall of about 31 % in the last two years of the second national development plan";<sup>19</sup> a "marked step up in the government's final consumption expenditure", a "sharp turn in Zambia's balance of payments"; hardly any diversification of the economy;<sup>20</sup> the failure of the second national development plan to make any impact on employment stagnation in the copper industry; the "predominance of consumer goods industries over those producing capital and intermediate goods";<sup>21</sup> "the dependence of most industries on imported raw materials"<sup>22</sup> "consumer prices for low income groups which had risen by 10.2 % in 1975 and 19.3 % in 1976 are estimated to have registered a further increase of 20 % in 1977"; "taking into account the effect of inflation, real capital expenditures in 1978 are expected to have touched their lowest level since 1965".<sup>23</sup> The plan concludes "that the country's malaise is far deeper than what can be attributed to the collapse in copper prices—what is called for is a re-orientation of the country's entire development strategy and a re-ordering of its social and economic priorities".<sup>24</sup> These are brutally frank and courageous words. However, the material in this chapter indicates that this process is far from under way.

The government seems to be convinced that it is the structures of the parastatals which are largely to blame, hence the continuing juggling with reorganisation. Even the cautious Mwanakatwe Commission argued that the Companies Act was an inadequate instrument to bring state corporations into line with government policies. Indeed it seems that in the past neither government policies nor official management directives were properly observed in the state corporations instead a kind of institutional anarchy prevailed with neither the corrective disciplines of commercial profit-making nor the discipline of state authority much in evidence.

The roots of this condition are to be found, not in organisational forms, important as they are, but in the socio-political environment prevailing in Zambia. They also lie in the obvious lack of *political* consistency and more, of *will*, which is manifest in the absence of commitment to government goals within those institutions and enterprises directly controlled by the state.

The basic justification for parastatals has been aptly summed up as: 'The creation of a parastatal body reflects a need for separate organisations to operate with relative freedom from government interference'.<sup>25</sup> Nevertheless parastatals are supposed to function in the interests of the government in power and political control increases in proportion to state participation in the economy, and this control is a necessary part of the political process.

But this position which is commonly held, does not explain why state corporations have to be separate entities from the government departments. The issue of autonomy is in fact a red herring usually covering up a desire to raise prices and increase the exploitation of labour. What is really at stake is whether the state is either willing, or, if it is willing, whether it is strong enough to take over the private sector in order to curb exploitation and re-orient the economy for the benefit of the people as a whole. Where this issue is obscured numerous side issues creep in to confuse. For instance there is a rather naive belief at the top levels in ZIMCO that because it is so large it can now hold its own against the multinationals with whom they co-operate. They believe that

the mere employment of international consultants to supervise the contractors in large projects will save them from being exploited.

In the end, whether the state is to move to socialism or remain essentially capitalist, depends not on the technical issue of the degree of control or of dependence, but on the political determination of the government. A full commitment to the abolition of capitalist practices, to the creaming off of the surplus by the elite, and to the necessary mobilisation of the working people to restructure the economy can generate a movement to break foreign control and dependency and open a new path to socialism.

## Notes

1. G. K. Simwinga, *Corporate Autonomy and Government Control*, Ph.D. Thesis, University of Pittsburgh, 1977, p. 170.
2. *Ibid.*, p. 198.
3. *Times of Zambia*, 23rd January, 1980.
4. *Hansard*, 13th March, 1978, Col. 2926.
5. M. J. Chaput, *Zambian State Enterprise. The Politics and Management of Nationalised Development*, Ph. D., Syracuse University, 1971, p. 157.
6. Zambia Industrial and Mining Corporation Annual Report, 1977.
7. J. B. Zulu and N. A. Mujumdar, *The Case for a National Commercial Bank, Money and Economic Development in Zambia*, Bank of Zambia, Lusaka, 1970, p. 24-25.
8. *Zambia Daily Mail*, 19th December, 1978.
9. See Mr. J. Mapoma, director-general's address to the Economics Club, 8th January, 1980.
10. *Ibid.*
11. J. Mapoma, *supra*.
12. *Hansard*, 30th March, 1979.
13. Mapoma, *supra*.
14. A. Martin, *Minding Your Own Business*, London, Hutchinson, 1972, p. 217. Emphasis mine.
15. S. Amin, *Unequal Development*, Monthly Review Press, London, 1976, p. 251. Emphasis mine.
16. C. Elliot, *Growth, Development or Independence?* in H. & U. Simonis, *Socio-economic Development in Dual Economies*, Munche Welt Forum Verlag, 1971, p. 69.
17. *Ibid.*, p. 76.
18. Speech to the National Assembly by President K. D. Kaunda, 11th January, 1980.
19. Third National Development Plan, 1979, p. 1.
20. *Ibid.*, p. 2.
21. *Ibid.*, p. 14.
22. *Ibid.*, p. 15.
23. *Ibid.*, p. 18.
24. *Ibid.*
25. K. S. Mutukwa, "Political Control of Parastatal Organisations in Zambia," *Zango* No. 1, September, 1976.