

# ***Organizational Constraints In Enhancing Accountability In Parastatals: The Tanzanian Case***

FRED MOSHI

LECTURER IN ACCOUNTING AND FINANCE,  
UNIVERSITY OF DAR ES SALAAM

AND

LIBERATUS L. SHIRIMA

SENIOR LECTURER IN FINANCE AND MANAGEMENT  
INSTITUTE OF FINANCE MANAGEMENT, DAR ES  
SALAAM

In recent years, growing public concern and pressure from various interest groups for austerity and accountability in the use of public resources had made the analytical approach to public policy formulation and evaluation exceedingly important. This descriptive analysis is an attempt to outline the principles governing the establishment and the role of parastatal organizations, their structure and management, as well as their problem areas.

## **Introduction**

In accordance with Presidential circular No. 2 of 1969, Cabinet Paper Nos. 8 and 18 of 1969 and TANU Guidelines of 1971 paragraph 33-34, and the recent CCM Guidelines, parastatal organizations operate on the basis of the following broad principles.

1. That they are tools for government initiative in participating in the production of goods and services and, therefore, they are instruments of execution which may be at the command of responsible authority.
2. That productive and commercial parastatals cannot be run on the same lines as a government department and, therefore, greater flexibility is required in these activities than is usually provided by government departments. Consequently, parastatal organizations, in addition to paying their way, should also participate in capital formation.
3. That each parastatal should have a clear understanding of its sphere of activities and responsibility and be responsible to one sectoral ministry.

Accordingly, functional duplication should be avoided, and as far as possible where conditions dictate activities should be transferable from one organization to another.

- 4.. That, since parastatals are national organs, they should participate in the furtherance of Public policy. In this regard parastatals must undertake activities which are a source of satisfaction and not discontent.
5. That the government must supervise and guide the disposition of surpluses accruing from the economic activities of the parastatal organizations.

On the basis of the objectives set out above, the parastatal sector can be viewed

as having to perform both the injector and *catalyst* role.

### **The Structure and Management of Parastatals**

The structure and organs of control of the parastatal system can be described as a five-tier control system. These five levels are:

- The operating parastatal system
- The holding parastatal system
- The parent Ministry system
- The control ministry system
- The apex system

Here we attempt to explore and describe how the different subsystems operate within and in relation to the larger subsystems.

#### **The Operating Parastatal System**

The operating parastatal system are the parastatal organizations which are involved in the actual production of goods and/or services. The managers of the operating parastatals are charged with the day-to-day decisions of these organizations. Above the managers are the Boards of Directors who represent "ownership" of these parastatals. Among their responsibilities are, to direct management on strategic decisions, to review operating results, and also carry out some statutory responsibility for the parastatals' behavior.

Boards are also partially responsible for the appointment of senior officers of the parastatals which they are directors.

#### **The holding parastatal system**

The concept of "holding" in Tanzanian parastatal structure is not confined to the ownership composition of equity, but rather encompasses consideration of functional relationships. Theoretically the holding parastatals could be viewed as "appointed beneficial" owners of equity in a given group of operating parastatals. The holding parastatals are set up to provide to the group such functional services as central planning, financial control, operational control, management support services, and, in some cases employment services. Additionally holding parastatals are supposed to play a major role in promoting development in their respective sectors. Accordingly they are expected to engage in Research and Development.

Structurally, each holding parastatal has its own board of directors who represent the "ownership" of equity in those corporations. The board performs functions similar to those described for the operating parastatals.

A characteristic common to both operating and holding parastatals however, is that both are responsible to a designated parent ministry.

#### **Parent Ministry System**

As already indicated earlier on, each parastatal is responsible to a certain parent ministry. The appointment of the parent ministry is again done in terms of functional relationships. The respective parent ministries exercise overall and

sometimes specific direction and control over the parastatals falling under them.

### **The Control Ministry System**

The control ministry system in this case is the Ministry of Finance and Planning/Treasury. Treasury controls the selection, implementation, and financing of the overall parastatal development programme and has considerable powers in respect of the activities of both operating and holding parastatals.

### **The Apex System**

The apex system is embodied in the Cabinet, the National Assembly and the Party.

In this case the ultimate responsibility for the entire system depicted above lies with the Cabinet, the National Assembly and the Party.

### **Some Control Features of the System**

The government has at its disposal an array of direct controls which may be applied through various established government agencies.

For example, as part of the annual planning process, Treasury approves all major investment programmes of the entire parastatal structure, and in addition has direct control over all funds flowing through the budget for capital/development expenditure. In addition Treasury has the sole mandate for issuing the Tax concessions and Foreign Investment protection certificates under the relevant Act. Other activities which fall under direct control of Treasury include inter alia, tariffs, the utilization of foreign aid and the disposition of parastatal surpluses.

The Bank of Tanzania as a government agency has direct control over import license, dividends and remittances of foreign profits and capital, and foreign exchange transactions of all kinds. Credit and Investment controls are exercised by the National Bank of Commerce and the Tanzania Investment Bank depending on which Bank receives the application in question.

Other areas of control which has direct bearing on the operations of the parastatal system include, management agreements, industrial Licenses, work permits and visas, and prices. While management agreements have to be scrutinized by an Interministerial committee with a secretariat provided by State House and final approval by State House itself, industrial licenses are issued by the Ministry of Trade and Industries.

The Ministry of Home Affairs and the Price Commission administer and control work permits including visas and prices of commodities respectively.

A cursory look over the control points described above gives a fairly elaborate impression of the duplicative nature of government effort inherent in the present parastatal system. Implied in the decision-process thus described is the prospect that by the time a decision is taken, a proposal/or application will have filtered through a lengthy bureaucratic control system. Undoubtedly, such a bureaucratic decision process will take an appreciable amount of time before the final approval is made, and presumably by this final stage most of the decision variables incorporated in the proposal will have changed in character resulting

in sub-optimal decisions which would obviously contradict corporate objectives of maximizing social welfare, among others. Even on a proposition that such a bureaucratic structure is inevitable in the name of protecting public interest as opposed to self-interest, one would still wonder as to the effectiveness of the procedures followed. The answer is unlikely to be affirmative considering the enormous amount of evidence available to prove that public interest has hardly featured as a priority consideration when analyzing and approving deployment of public resources.

Our contention here is that the government procedures of filtering decisions is obviously desirable given the role of the government in insuring that parastatals are fulfilling the objectives assigned to them by the government.

However, of serious concern is the effectiveness and seriousness with which these procedures should be exercised without causing unnecessary hardships both to the public and to the parastatal system.

Assuming that the procedures described earlier in this paper are the best available, one way to de-bureaucratize them is to apply a simple "policy test". To pass the policy test a proposal has to qualify in terms of consistency with government policy, having regard to its viability, feasibility, and sectoral integrativeness. When a given proposal passes this test, then the next task remains with respective ministries in conjunction with the Central Ministry to mobilize and allocate funds/resources accordingly and in good time. If this is done, the procedural system could be said to be both *effective* and *responsive*. However, experience testifies for the absence of these two key qualities in the whole system, i.e. *effectiveness and responsiveness*.

The particular location and cause of this problem may vary from one institutional set up to another and must be *investigated carefully in each case*.

Another general feature of the system is that it is expected to ensure that the intended flexibility and efficiency through the parastatal form of organization is exercised for the attainment of the intended public interest - the people of Tanzania. If the parastatals, through production and supply of goods/and services, are generating surpluses, those surpluses should be properly accounted for to the beneficiaries through the government and in this case the government should in turn be seen to account to the people who entrust resources to it - i.e. the Tanzania Public. For the system to meet the requirement cited above it must ensure that adequate and continuous accountability for the use of public resources is, as far as possible widely visible. Again there is substantial evidence that the system is not effective in this regard. The causes and location of this problem demand concerted inquiry involving detailed analysis. Close examination of the present structure suggests that both the parastatals themselves and the system of control and the resultant interrelationships, are beset by some of the least desirable features of bureaucratic inefficiency. Indeed for some areas it may be suggested that the government itself is no less efficient than the parastatals.

Ironically, therefore, some of the parastatal units we are reviewing are more of cost burdens (cost centers) than of investment portfolios. Ultimately, for the cost-burden parastatals it would have become cheaper to run as a government department.

In attempts to streamline the parastatal sector government has all along suggested changes in their organizational structures. Consequently, within the period of the existence of the parastatal form of organization (i.e. since 1967) there have been significant attempts to change the basic structure of parastatals in the country.

The cases in point are the National Development Corporation (NDC) and the defunct State Trading Corporation (STC). The NDC for example has been progressively broken up into smaller more specific corporations operating either as subsidiaries or being re-allocated to new parent ministries. This of course was in addition to formation of new parastatals under respective ministerial "parenthoods". In so far as those moves were geared toward enhancing operational efficiency, this could have been consistent with the public interest phenomenon. However, it is saddening to note that only the appearance changed but the form remained intact. A glaring testimony to this observation is the case of the decentralization of the State Trading Corporation in early 1970's. The whole structure and modus operandi of national institutions (commercial and non-commercial) leave a lot to be desired. Whether these activities have been taking place by design or by accident that still remains speculative. However, the phenomenon of "empire-building" has been very clearly demonstrated in the form of our public enterprises.

### **The Control System and the Operating parastatals**

Undoubtedly the concept of *management process* is the key factor in the control system at the level of the operating parastatals. In situations in which management and indeed even director are not mandated to institute *direction* and *control*, efficient operations are unlikely to result. In other words, if the board and management are unable to control operations efficiently, then no amount of direction and control from above will ever produce satisfactory results. If the converse is true for the board and management, then the functions of the other six controlling organs are rendered relatively simpler and in most cases even unnecessary.

In evaluating the effectiveness of the control system in the context discussed thus far, one needs to have a clear understanding of the criteria for "effective management". Such criteria necessarily needs to be established and agreed upon in the first place, at the highest level of accountability. Only then can the criteria be used as a basis of evaluation. Once the criteria have been established it will be necessary to distinguish between those cases of ineffective management attributable to the operating management and those attributable to the entire hierarchical structure of control.

Ultimately, that hierarchical structure of the control system should automatically map out the different levels of accountability.

At this juncture it should be noted however, that before one can be asked to account, one should have been assigned and given mandate in the first place. Short of this there is the real danger of persecuting the innocent thereby committing type 1 error.

Among some indicators of managerial effectiveness are the economic (financial)

measurements as reflected in annual financial reports of the concerned parastatal unit. It is generally perceived that, in the absence of more robust criteria for assessing managerial performance, the concept of operational income or profit is an acceptable surrogation. It must be noted however, that the concept of profit alone as a surrogate for managerial performance is an inadequate parameter. It is even more so especially in a monopolistic environment such as the one addressed by this paper. In the opinion of the authors, the crucial factor in the profit criterion is the *efficiency* with which the profit is generated.

Under the monopolistic conditions common in Tanzania, the use of a profit figure alone as a criterion for performance evaluation does not necessarily imply neither efficiency nor effectiveness in the use of resources entrusted to management. We contend, therefore, that the central problem of controlling operating parastatals is lack of deliberate effort of setting *optimal* operational/result standards for which respective management should be committed to attain.

These operating standards monitored from a *central* point of responsibility should form the basis against which managers should be assessed. Under this criterion attainment should be objectively rewarded; and the converse should be the case for non-attainment.

Another important consideration is as regards the structure of management in the set-up already discussed in this paper. As an example, of the 37 firms directly engaged in manufacturing 10 are managed through *management agents* and in many cases management is supplied by the minority shareholders. In this kind of management structure you will find that in the majority of cases, through the management agreements, there is a clear propensity for managerial allegiance moving toward external interests rather than internal. In addition to supplying management expertise the minority shareholders also supply raw materials and other inputs. Minority shareholders, through this structure would also be in a position to influence the marketing strategy of the parastatals affected. Under these arrangements, minority interest occupy a position of considerable "power" in influencing and controlling the operations and results of these parastatals. The structure described above can be considered to be "Externally Integrated".

When an operating parastatal becomes externally integrated it automatically finds itself unable to make controlling decisions of herself.

Effectively, decisions as to inputs, production processes marketing strategies, pricing both inputs and products, become a prerogative of external/minority interest. Consequently, even if the operating parastatal does not report "efficient profits", the minority interest does not suffer because their profit motive will have been realized through their control over operating decisions such as, input pricing, processing methods, and product pricing.

Invariably, the pricing policy in Tanzania tends to create very conducive environments in favor of external interests. The consequence of this is that the Tanzanian consumer is becoming increasingly impoverished by having to pay prices higher than "efficient prices", and having to pay higher taxes which are being realized through corporate profit margins already exaggerated by higher input-costs.

## **Obvious weakness of current set-up and some Tentative recommendations: Objectives:**

Very often the objectives of operating parastatals have not been clearly spelled out. It should be noted and appreciated that, before any activity can be controlled, monitored or measured in any way, there has to be some clear objective toward which the activity is directed. The immediate objectives need to be stated with precision leaving no room for misinterpretation. In the Tanzanian parastatal structure, objectives and targets should ideally be set out by the parent ministry in consultation with the board of directors.

In the opinion of the authors, objective setting should not be a sole prerogative of management. Once the organizational objectives have been set, the boundaries of managerial authority and responsibility must be defined. It is our view that failure by management to meet objectives as assigned should result in the application of some kind of sanction, and success in meeting objectives should attract some appropriate reward. It should be noted, however, that the existence of rewards and sanctions for performance targets, must be coupled with commensurate authority and latitude to enable managers to make optimal use of resources in order to achieve targets.

With regard to managerial authority and operational latitude in the Tanzanian environment, one is bound to encounter two major considerations. The first consideration is the fact that the majority of managers in the parastatal sector are relatively young and necessarily with limited managerial experience. In these circumstances it is imperative that the central control system should make provision for the accommodation of this fact. The second consideration that ought to be noted is the fact that, while efficient managerial performance must necessarily be coupled by increase labor productivity, the present system would seem to be more oriented to a very wide interpretation of worker *protection* with little emphasis placed on the need by workers to increase productivity. Our contention is that, management must be empowered to seek and obtain increased productivity of labor while at the same time workers must be protected against *unjust demands*.

### **Board of Directors:**

There appears to be some peculiar problems associated with the functioning of some boards in this country. Among the most salient ones are the *irregularity* in holding board meetings; in this case some boards meet only twice in a year leading to crowded agendas representing too great a load for consideration at any one particular meeting; and the tendency to send to attendance at board meetings of alternates to represent substantive board members who are otherwise too busy to attend in person. In any case, the specific observations as well as the general factors not specifically discussed here, tend to render the boards of operating parastatals ineffective.

### **The Place of Holding Corporations:**

The position of the Holding Corporation in the Tanzanian Parastatal structure has not always been clear. There seems to be considerable ambiguity with regard to the role and relation of the holding corporation. Viewed in the context of

Principal-Agency relationship, the position of the Holding Corporation would be akin to that of an *agent*, and government through respective ministries in this case would be the Principal.

However, practice has never proved this hypothesis. At least in theory, the interest of government should be taken care of by the respective parent ministries and central ministry whereas productive activities should be the responsibility of the boards and managements of respective operating parastatals. What, then is the role of the Holding Corporation? Is it to supplement the activities of the parent ministry? or is it to assist in the management of the operating parastatals? or is it both? or is it some other motive such as expansion of spheres of influence? Whatever the role of Holding Corporation the following are some obvious snags:

- Holding Corporations are enormously expensive to maintain.
- Despite relatively large with trained personnel, they are unable to produce sound proposals through which socio-economic objectives are enhanced.
- Surplus generated in sectors controlled by Holding Corporations are, by and large, absorbed in non-development activities; very few are able to sustain development in their sector from their own funds.
- In some cases a Holding Corporation interposed between the parent ministry and an operating parastatal tend to force the parent ministry into a passive role. Rather than being the guiding force, the ministry becomes the follower of the Holding Corporation. Again, rather than setting objectives and monitoring progress, the ministry becomes the recipient of plans, the acceptor of targets and the defender of progress (or lack of it) of the holding corporation.

It should be noted that any organization that cannot reproduce itself or cannot show socio-economic cause for its existence is a social burden to the total socio-economic system of its environment and hence should undergo extinction.

### Conclusion and Recommendations

On the main, our conclusions and recommendations are drawn from a live case from the Senegalese Government where some successes have been recorded in the parastatal sector. The model under which the Senegalese parastatals operate is based on the principle of a "Contract Plan" between the State and the Public Enterprise (Parastatal).

The Contract Plan is a negotiated agreement between government (or government agency) and a parastatal company describing objectives that government assigns to the parastatal as well as the resources it will provide and the degree of control it will exercise. The parastatal company in turn, promises certain specific results; performance to be judged by indicators mutually accepted over a given period of time.

In Senegal, such contracts were first prepared in the transport sector (road, airline, railroad etc), and have extended to include negotiations between government and regional development agencies. Of course the degree of complexity may differ from industry to industry depending on the nature of business to be



carried out.

The Senegal experience has already signalled several useful lessons. One such lesson is that, effective use of contract plans requires strong support at the highest levels of government. It is noteworthy though that, on the behavioral plane, individual ministers and senior civil servants fear losing control over public enterprises, including the power to make fairly routine decisions. Secondly, company contracts motivate company managers as they see in them,

- (i) clear objectives on which their performance is judged,
- (ii) a precise definition of the role and extent of subsidies and tariffs in company operations, and
- (iii) a reduction in ambiguity of company objectives.

The third observation is that the negotiation of company contracts would need to be supervised by some neutral government staff who report to the central political authority.

This arrangement will enable conflicts between companies and government authorities to be resolved by either the President or the Prime Minister whichever the case may be. Moreover, once a company contract has been negotiated, the neutral government staff should supervise its implementation and expose failures/non compliance by any of the parties in the fulfillment of their obligations under the contract.

The above model can work sufficiently well under the current political system whereby the company contract necessarily will have to make full provision for political choices to be made. In the opinion of the authors, political choices will have to be made in full awareness of their social-cost-benefit implications and the extent to which they touch/affect the operationalization of the contract objectives. It is also understood that, generally government leaders are usually reluctant to give enterprise managers full autonomy in crucial decisions such as pricing, employment and wages, investment, incentives etc; because they fear, in part, infringement of public interest. Under the model discussed above, however, a contractual relationship established on a clear understanding of goals and criteria for managerial performance, would permit reduction in the detailed controls of ministers and other central authorities. Undoubtedly this would conserve their valuable time and energy, while giving the enterprises autonomy needed to operate effectively.

The above model is construed under the following conditions that the government has to provide:-

- 1 - A clear definition of objectives and terms of reference.
- 2 - An explicit understanding regarding the annual financial and production plan within the framework of agreed long-term strategy (the strategic plan).
- 3 - An incentive system conduce to efficient performance.
- 4 - Independence to routine decision - making and day-to-day man-

agement.

- 5 - Independence in personnel management and human resource policy.
- 6 - Acceptance of the principle that under certain circumstances liquidation of enterprise may be desirable, and that management has to account for reasons to that effect.
- 7 - Appointment procedures, security of employment, and personal emoluments for top executives are clearly spelled-out.

(See annexure A for details).

In conclusion, the parastatal sector in the current structure can be viewed, by and large, as a cost-burden to the government and therefore to the general public (the owners). However, with deliberate effort to streamline the system and establish virtues of accountability the parastatal sector has an enormous responsibility to its owners. Since this was only a descriptive analysis of the state of the art, it fears to end with any strong conclusion. However, we would like this script to stimulate empirical studies/research into the structure of the parastatal sector with a view to finding the exact locations of the problems highlighted in this paper. The ultimate goal for parastatals is to help the government in the running of the economy. If that goal is not achieved, we have to question the justification of existence.

#### Annexure A

The following is a list of some of incidences that have been occurring in some of the parastatals. These could be a reflection partly of lack of an accountability criteria and/or a manifestation of inert personnel policy.

1. Fraud
  - Direct fraud and thefts including embezzlement.
  - Indirect fraud including benevolence in conditions of contracts or contractual settlement; over-valuation of agreed contract prices or violation of contractual price limits; fictitious or fraudulent transactions on certificates of contractual services or claims; fraudulent dealings on deliveries collusion.
2. Misuse of company assets and other resources.
3. Waste due to:
  - Neglect or carelessness including, failure to take remedial action promptly; over estimation of requirements; misallocation of requirement/resources; oversight on important issues.
  - Technical Inefficiency-including, misallocation/misuse/under utilization of resources/assets; lack of proper technical competence and hence poor supervision; lack of proper evaluation or specifications.

- **General maladministration including, lack of expediency; poor planning; and complete incompetence.**
- 4. **Extravagance:** • **Include, over provision and overestimation of needs; prestigious and grandiose acquisitions, project initiation, and production luxury in buildings, accommodation, and other services; creation of deliberate loopholes in financial control as the resultant use of the law of the jungle.**
- 5. **Unsound Projects :** **Careless or lack of forethought in original decisions and plans; apparent sabotage; unreasoned subsidies and allocations.**