FISCAL IMPACT OF THE PARASTATAL SECTOR IN TANZANIA: 1984-1995

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Abstract: The parastatal sector in Tanzania grew at a tremendous pace in the last three decades. An inventory of the sector done by the Parastatal Sector Reform Commission in the early 1990s came up with a figure of 425 firms. The large number of firms is also reflected in the large proportion of gross capital formation and high share in waged -employment. The strength in numbers and level of investment has not been matched with a positive fiscal impact on the government sector. The parastatals have consumed a disproportionately huge portion of the government's financial resources. Apart from failing to generate surplus to be transferred to the government as dividends, it continued to receive subsidies and grants to extend is survival. Furthermore, it continued to enjoy high tax exemptions thus accentuating further the government budgetary problems. On the external sector, the parastatals have left the government with huge external debts that are yet to be settled. The study has basically established the magnitude of the net fiscal transfers from the government to the sector. The findings tend to provide a further justification on the action taken by the government to either privatize the solvent commercial firms or liquidate the insolvent ones or restructure and rationalize the quasi-government firms. It is concluded that the pace of closing the parastatals has to be expedited to avoid further depletion of the remaining resources.

INTRODUCTION

State intervention in Tanzania's economy, as a way of spearheading development, was adopted immediately after independence and before the formal adoption of the socialist ideology as promulgated in the Arusha Declaration of 1967. Early moves to set up the parastatal sector came through the establishment of the National Development Corporation (NDC) in 1964 by an Act of Parliament. The real thrust, however, came after Arusha Declaration that became a major force towards nationalization of private enterprises and initiation of new investments in the public sector.

The ownership structure of the new public enterprises took two forms. One form was where they were owned by the state completely, i.e. all the shares or firm equity remained in the domain of the state. Firms that belonged to this mode of ownership were either established directly by the state, or were acquired through privatization but were considered to be of high strategic importance. Some examples of such institutions include financial institutions such as banks and insurance companies, and the utility companies which dealt with power, water supply, telecommunication, and postal services etc.

The second form of ownership is where the state controlled at least a majority share of the equity of the public enterprises. This covered anything above 50% of the voting shares of the concerned firm(s). Most firms acquired from the manufacturing and trading sectors fell under this category. The control of these firms was exercised through a system of parental ministries, holding companies and subsidiaries. The parent ministries dealt with policy issues while the holding companies and subsidiaries were mostly concerned with operational matters.

The parastatals were accorded special privileges to enhance their role in the economy. These came through the various measures taken by government to control the economy, as the socialist ideology would dictate. Among such policies were:

- Central control of investment planning with restrictive codes on private and foreign investments;
- Allocation of foreign exchange through import licensing;
- Price controls administered by the National Price Commission;

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- Regulated or controlled interest rates and credit rationing according to the Annual Finance Plan; and
- Confinement policies whereby trade for some imported and domestically produced commodities were restricted to specific organizations.

The intensity in setting up the parastatal sector can be gauged from the growth in numbers as well as the amount of investment capital directed to it. In mid 1960s the number was just about 42 but this rose to about 425 in 1984/85 when formation of new companies came to a halt due to the reform programmes being implemented under the structural adjustment programmes. Since then the numbers have been decreasing resulting from closures, restructuring and privatization. The size in numbers was also represented in the level of capital formation. The pick of capital formation came in late 1980s when it was 34.5% of the total gross national capital formation. Although formation of new companies had ceased, some of the existing companies continued to invest more in long-term assets. After 1990, the share of capital formation started to decline and by 1995 it was at a level of 14.5%. (URT 1984-1995). The size in terms of contribution to GDP, one notes a fluctuation between 12.7% and 22.5%, perhaps not in tally with the level of capital formation (URT 1984-1995). As for employment, the sector absorbed quite a high proportion of those employed in the wage employment sector. In the 1980s the share stood between 22.2 and 29%. It is quite apparent from these figures that the parastatal sector was an important factor in the economy.

State expectations from these institutions were also very high. The sector was expected to fulfill both social and economic goals. This dual role has been characteristic of other public enterprises in other countries as well (Doamekpor, 1998).[2] These functions were spelt out in very certain terms in the Second Five-Year Plan. In addition, the various statutes establishing some of the institutions clearly spelt out the need for the firms to operate commercially and generate profits from which dividends would be paid.[3] At macro level, the threshold was contribution towards the coffers of the state. The government budget was expected to benefit substantially from resources generated by the sector. Furthermore, the sector was to contribute to balance of payments and national output in general. Socially, the public institutions were expected to have a social focus in terms of ensuring greater regional balance of its activities (Cliffe and Saul, 1973: Seidman, 1973).

This paper is an extract from a major study that was done in 1997[4] to find out the fiscal contribution of the parastatal sector to the government. It therefore summarizes in part the findings of the study and endeavors to show the net financial benefits accruing to the government from the commercial oriented parastatals.

THE PROBLEM

The parastatal sector[5] has been put under pressure to change in view of other reform initiatives undertaken by the state. This pressure was evident from the beginning of the 1980s

2 Doamekpor suggests that social and commercial objectives are not always compatible. Furthermore, given the multiplicity of their objectives and economic rationale for their creation, the use of balances as well as profit and loss account statements may be inadequate measures for determining their overall economic viability.

3 See for example the NDC Statute (Act No. 69 of 1964), and the Public Corporations Act No. 16 of 1969

4 The study was funded by the Parastatal Sector Reform Commission and benefited from the inputs of many staff in the Faculty of Commerce and Management as well as the Economic Research Bureau, UDSM.

5 Parastatals are defined as government owned or controlled entities that earn the bulk of their revenues from sales and have a distinct legal entity and are self-accounting.

when the economy's performance nose-dived leading to very low industrial productivity.

Policies adopted prior to this time had brought the economy to its feet. The economy entered into a vicious circle of low capacity utilization in its productive facilities, rampant shortage of consumable and industrial goods, critical shortage of foreign exchange and total stagnation of related social and economic services. The blame for these economic ills fell partly on the sector that was supposed to be the economic arm of the state given the very large investment. The very weak financial standing of most of the parastatals was itself a testimony of the collapsing economy. The fact that most of them had been performing below capacity meant they had been operating with losses, with the consequence of depletion of the capital base and deepening of dependence on government subsidies and bank borrowing. At the same time, the government fiscal problems were escalating.

Under the structural adjustment programme, the reform measures taken to tackle the macro-economic crisis, to a large extent, had serious performance repercussions on the parastatal firms. The reform facilitators, namely the World Bank and the International Monetary Fund, have used their financial clout to change the government's socialist ideological stance to a free market one.

This has resulted in the adoption of structural adjustment measures by the government with a strong bearing on the performance of the parastatal sector. The overall adjustment measures taken include external and internal trade liberalization with the impact of reducing monopoly enjoyed by the parastatals; liberalization of the financial sector thus exposing parastatals to commercial (non-preferential) banking operations; removal of price controls on commodities; liberalization of interests rates; removal of foreign exchange controls and liberalization of exchange rates; and the imposition of budgetary restrictions on the flow of subsidies, equity injections and other transfers to parastatals.

Besides the squeeze resulting from the general reform policy measures highlighted above, which were indeed stringent enough, the parastatals were further put in line for either privatization or commercialization or liquidation. In pursuit of the latter, the government formed the Parastatal Sector Reform Commission (PSRC) to oversee the restructuring and privatization of such firms.

The paper is divided into five sections. Section I provides an introduction about the sector and a statement of the problem. The next section highlights the methodology adopted in collecting data and in analyzing it. Section III is on definitions of key concepts used in the paper, while section IV presents the findings of the study. The last section presents a summary of implications and conclusions.

METHODOLOGY

Data Sources

Most of the data was collected from the Parastatal Firms (PFs) themselves. Other macro-economic data was collected from other institutions dealing with aspects of PFs.

Sampling

The sample of parastatal firms that was to be studied comprised of about 105 companies, which is about one quarter of all the firms that were official listed by the Parastatal Sector Reform Commission as of 1993. To ensure diversity in the sample, three attributes were considered in the selection process. The first is the nature of operations of the company. The firms were categorized into either commercial or non-commercial. For purposes of the study, emphasis was on the commercial ones because they have more pronounced, and under normal circumstances, positive flows to the government.[6] The second attribute considered is sectoral distribution of the firms. The firms were classified under seven sectors inclusive of agriculture, communication and transport, manufacturing, natural resources, tourism, trade, and others. After categorizing all the firms into the respective sectors, the third attribute, which is the regional distribution, was factored in. The regions identified as hosting productive parastatal firms are Arusha, Dar es Salaam, Kilimanjaro, Mbeya, Morogoro, and Tanga. Then a matrix of parastatal firms according to sectors and regions was developed, followed by selection of firms to be studied on a proportional basis and taking into consideration the nature of operations attribute. The proportions considered is the number of companies in a region in relation to the total number of companies listed by PSRC. Other additional considerations made included considering financial versus non-financial firms etc.

The data collected focused primarily on fiscal flows to and from the PFs as shall be defined further below. Such information is mostly of financial nature and was extracted from published or unpublished financial statements and annual reports etc. Information that could not be obtained directly from the statements was obtained by use of a questionnaire.

Other aggregate data not specific to any single parastatal firm was collected from sources such as Tanzania Audit Corporation, the Treasury Registrar and tax authorities (Income Tax Department & the Sales and Customs Department), the Economic Survey (Hali ya Uchumi) and other publications available at the Bureau of Statistics.

Data Analysis

The analysis done is mostly descriptive supported by simple statistical analysis aimed at enhancing the interpretation of the information. For example, simple relative measures (ratios) have been computed, i.e. those relating the flows determined with aggregate measures such as GDP, public revenues, public expenditure, etc. to facilitate meaningful interpretations. Besides, efforts have been made to compile tables that give some basic information on the flows between the PFs and the government. As for qualitative analysis, efforts have been made to present the information in a manner that facilitates easy interpretation taking into consideration the social-environment in which the PFs operation and the impact of that environment on their operations.

Limitations

The data for the study was compiled from records kept by the firms for which authenticity could not be guaranteed. This is particularly so for the unpublished data. To overcome the problem of unreliability, some efforts were made to ensure that there was consistence in the information collected. The second problem is that of incomplete information spanning the ten years chosen for study. The latter problem is accounted for by several factors. For example, some of the companies that had been privatized were unwilling to divulge with information relating to the post privatization period for fear of the information falling in the wrong hands. In other cases, the financial accounts were in arrears for a long time, while in other cases some restructuring had taken place resulting in retrenchment of staff and this had negative impact on the flow of information. In spite of the problems encountered, the author is confident that the information made available and analyzed is adequate for meaningful interpretations and conclusions.

CONCEPTUAL ISSUES ON FISCAL IMPACT ASSESSMENT

The formation of PFs in Tanzania had multiple

6 By definition, parastatals include even quasi-governmental instutions such as colleges, universities and research firms which depended fully of government budget. Hence their exlusion from the sample of companies studied.

objectives, namely to pursue both social and commercial objectives. These objectives placed the parastatals on a crossroad. On the one hand is the maximization of profits, (as is expected of a private business entity) while on the other was the maximization of social surplus (as a public firm). These two objectives can be contradictory which makes the performance assessment and analysis of PFs both challenging and involving.

As regards the first objective, the PFs are expected to operate as business entities. For that reason what they seek to achieve and hence their investment and financing decisions is summarized as follows:

- Maximization of profit increasing activities through greater efficiency (i.e. increasing sales revenue without decreasing operating profits).
- Maximization of the capital employed by relating profitability to the size of the firm.
- Ensuring survival (long term stability) of the firm
- Ensuring growth of the firm.
- Satisfying- a business as a coalition of supplier of capital, suppliers of managerial skills, suppliers of goods and services, and customers, should not view any one of these groups as having pre-eminence over any of the others. As articulated by Cyert et al. (1964)[7] this coalition is not seen as a self-contained entity but viewed in wider societal context.
- Maximization of shareholder's wealth.

For the second set of objectives (i.e. social surplus maximization) the firm does not seek to pursue economic and commercial goals per se as ends in themselves. It is concerned with societal and welfare issues as the guiding compass of their operations. Among this set is the following (Floyd et al 1984: 45):

- Economic stabilization;
- Economic growth;
- Income redistribution;
- Localization/indigenization of managerial skills.

As can be seen, these are synonymous to objectives of a government. Thus when a firm strives to maximize social surplus, it overlaps itself with the objectives of the government. Their operations therefore become part and parcel of the overall public services delivery system with their accompanied direct and indirect costs pertaining. Adoption of these policies conflict with operations of rational business organization. In practice, PFs seldom take advantage of a competitive profit maximizing market environment because they are encumbered with non-commercial objectives. They end up operating in non-competitive markets; its management is more bureaucratic than entrepreneurial, impeded by government intervention in details of management, lacking incentives to improve in performance, and without accountability for results. Also, PFs have seldom been allowed to go bankrupt.

In looking at fiscal impact, one is basically looking at flows to the government in the form of dividends, royalties, and other tangible benefits that can accrue to shareholders of a private business. To that account, the measure of performance would be, as already pointed above, on the maximization of the set of objectives. At the same time, since the government has the objective of maximizing the wealth of the society, its agents (i.e. the firms it owns) should likewise do the same. To that respect, the measure of success would be the second set of objectives (i.e. social surplus maximization). This paper looks at the magnitude and trends of the inflows and outflows of these transactions. The approach is to combine the two and gauge the success or failure of the PFs in pursuit of the selected set of criteria.

[7] Cyert March and J. G. March (1963), *A Behavioural Theory of the Firm*. Eagle Woods Cliffe, Prentice Hall

Definitions of Key Concepts

Important conceptual terms to be defined refer to either accounting magnitudes or implicit transfers in relation to flows from either the government or the PFs.

Explicit Financial Flows from the Government to the PFs

These comprise of purchase of:

- Equity that becomes the seed capital for the firm;
- Loans advanced to the PFs;
- Accruing interest on government loans.
- Grant and subsidies being unrequited transfers that do not qualify as payments for goods and services rendered, purchase of equity or changes in liability;
- Implicit subsidies comprising of payable taxes which are not remitted to the government, or exemptions enjoyed by the PFs by not paying certain taxes to the government, or costs of resources passed to the PFS at prices below the market rates (concept of social opportunity cost, though very difficult to measure).

Explicit Financial Flows From the PFs to the Government

These comprise of:

- All forms of taxes and rent paid;
- Increase in arrears of government payments for good and services supplied by PFs. Basically it reflects changes in liabilities in favor of the PFs;
- Payments in return for investments inclusive of dividends and interest paid on long-term capital;
- Redemption of capital in form of either payment of long-term loans or reduction in equity capital, although very rare in as far as the PFs are concerned;
- Lending to government by non-financial institutions PFs. In this case PFs with surplus cash contribute towards government programmes or resource spent by PFs to purchase government bonds that are intended to cover government deficits against commercial interests;
- Implicit transfers which basically arise from expenses and losses arising from pursuit of non-commercial objectives. This is indirect flow when pursuits of non-commercial objectives are imposed by the government and inflict financial burden on the PFs. The second category is that of below market price supply of goods and services to government. This arises when there is a marked positive difference between fair market or opportunity cost value of goods and services that the public enterprise supplies to the government and what the latter actually pays for them.

RESULTS

Net Transfers to Government

The study found out that, between 1984/85 and 1995/96, there were net outflows from the government to the parastatal sector. As can be seen from column 6 of table 1, the net transfers, in real terms, grew from Tshs. 6.3 billion at the beginning of the period to Tshs. 18.1 billion in 1995/96. The composition of the net transfers is discussed further below.

Transfers to the government (explicit and implicit flows)

The explicit inflows to government

The explicit inflows from the PFs comprise of transfers in the form of dividends out of profits and both direct and indirect taxes. The magnitude of the transfers in real terms, ranged between tshs. 3.6 billion and 6.8 billion (see table 1 col. 2). These transfers grew at annual rate of about 1.4% between 1984 and 1995.

A substantial portion of the explicit flows comprised of the taxes, while dividend transfers have been very low. In fact only four PFs, namely BOT, TPDC, TCC and TBL, were remitting dividends to the government regularly. As can be seen further from table 2 below, the dividend transfers varied from half percent to 41% of the total explicit inflows, and at aggregate level, the dividends' share was about 16.5%. The high number of PFs incurring losses annually from their operations explains the low level of dividend paying.

The study found out that in any one year, at least a third of them were making losses. For example, in 1994, of the 41 PFs reporting, 21 (50%) of them were making losses. Accumulated losses were also a hindrance to dividend paying due to the legal requirement imposed by the Dividend Limitation Act of 1972. For example, the accumulated losses in real terms rose from tshs. 5.4 billion in 1990 to tshs. 13.3 billion in 1993.

The Implicit Inflows to the Government

The implicit inflows from the PFs to the government, which constitute transfers arising from either favored purchases by government or donations to the government, turned out to be very low. As can be discerned from Table 1 (see col. 3), these were hardly more than tshs. 500 million in any of the ten years studied. In fact in some of the years the government seemed to be paying more for its goods to the PFs than was expected. Hence the negative inflows observed.

Table 1: *Total Transfers to and From the Government*

Year	Transfers to the Govt Explicit	Transfers to the Govt Implicit	Transfers from Govt Explicit	Transfers from Govt Implicit	Net transfers to Govt
1984/85	3564.5	37	-2077.3	-7846	(6320.8)
1985/86	4137.0	-295	-3484.0	-6552	(5994.0)
1986/87	4769.1	-126	-4185.8	-3245	(2787.7)
1987/88	4074.8	96	-3995.6	-48278	(48102.8)
1988/89	6127.1	45	-2966.9	-32244	(20038.8)
1989/90	5443.0	61	-3324.6	-29508	(27328.6)
1990/91	4804.5	00	-4340.3	-35941	(35476.8)
1991/92	6751.5	460	-3539.1	-37166	(33493.6)
1992/93	4767.5	-19	-4605.6	-23044	(22901.1)
1993/94	6072.3	-265	-4077.9	-52008	(50278.6)
1994/95	5238.5	-18	-1439.2	-25562	(21780.7)
1995/96	4152.8	00	-2054.6	-20177	(18078.8)

Source: Extracted from Table 3.2 of PSRC Report

Table 2: *Share of Dividends paid over total explicit inflows*

Year	Dividend (Tshs millions)	Total of all direct and indirect taxes	Total inflows	Dividend as % of total flows
1984/85	520.6	3044.9	3565.5	14.6
1985/86	444.1	3692.9	4137.0	10.7
1986/87	28.3	4740.8	4769.1	0.6
1987/88	348.2	3726.6	4074.8	8.5
1988/89	2321.5	3805.6	6127.1	37.9
1989/90	2237.6	3205.4	5443.0	41.1
1990/91	501.6	4302.9	4804.5	10.4
1991/92	1369.4	5382.1	6751.5	20.3
1992/93	519.6	4247.9	4767.5	10.9
1993/94	856.6	5215.7	6072.3	14.1
1994/95	78.3	5160.2	5238.5	1.5
TOTAL	9225.8	4652.5	55750.8	16

Source: Extracted from Table 3.2 of PSRC Report

Transfers From the Government to the PFs (explicit and implicit flows)

The explicit transfers from the government

The explicit transfers from government to PFs comprise mainly of subsidies, additional equity capital injection, grants and subventions. These are presented in col. 3 of Table 1. These transfers grew at a rate of 0.9% per annum with the transfers ranging from Tshs. 1.5 billion to tshs. 4.6 billion. Transfers through grants and share capital contributed the largest share, particularly between 1984/85 and 1988/89.

The increase in the share of capital transfers is attributed to conversion of grants and loans into equity after most of the PFs failed to repay their debts due to liquidity problems. As for the subsidies and grants, these averaged tshs. 700 million per year during the period 1984/85 to 1992/93. The subsidies continued to flow to those parastatals considered of national importance in spite of the reforms that were taking place. Included in the list of recipients of subsidies include the National Milling Corporation and the Crop Authorities. Other PFs received subsidies to cover retrenchment costs related to the restructuring efforts.

As regards grants and subventions, these were paid as direct assistance to the PFs. Most of these were capital grants extended to support some expansion programmes or modernization efforts. The grants ranged from tshs. 1.0 billion and tshs. 3.0 billion per year. Some of the grants paid went to firms such as TANESCO, Tanzania Breweries Ltd., Tanzania Cotton Marketing Board and Tanzania Tobacco Board.

The Implicit Transfers From the Government

Implicit transfers stand for indirect outflows from the government to the PFs. These implicit outflows represent a very significant share of the total transfers from the government to the PFs. As can be seen from Table 1 (see col. 6), the transfers increased significantly after 1986/87, a period when a number of macro economic interventions were being introduced.

Items that gave rise to these transfers include taxes not paid due to exemptions granted by government or non-compliant to paying time, i.e. those falling into arrears. Moreover, default provisions have been made in respect of loans guaranteed by the government. Other items included are advances extended in form of import support. In the latter case, it became apparent that due to the serious financial crisis experienced by the PFs as evidenced by accumulated losses, the government had a low chance of recovering the outstanding amounts. Actually, large firms such as THA, TPDC, TP&TC and TRC had received the import support in billions of shillings, ranging from tshs. 2.3 billion to 7.4 billion.

It is also important to note that the PFs had taken huge loans repayable in foreign currencies. When the shilling underwent a massive devaluation,[8] the outstanding balances were substantially inflated. This led to defaults on payment of both the principal amounts and the accruing interest. The government underwrote external loans to PFs and therefore was ultimately responsible for repayment in case of defaults.

The devaluation factor alone increased the interest payable on the loans from tshs. 6.0 billion in 1987/88 to about tshs. 18.0 billion in 1993/94. It is worth noting that defaults in the period 1989/90 to 1991/92 averaged tshs. 14 billion.

As regards taxes, the government exempted the PFs from paying substantial amounts of assessed values. During the period 1984-1994, sales tax and custom duties assessed on parastatals amounted to tshs. 49.2 billion, but the amount paid was tshs. 10.6 billion representing about 21.6% of the total amount.These exemptions represented implicit flows to the PFs.

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[8] Overall, the value of the Tanzanian shilling depreciated at an average rate of 21% between 1984 and 1995 and fell to T. shs 558.2 in 1995 from a rate of T shs .....per US $

The other item that has contributed to the inflows is dividends in arrears. It was found out that lots of dividends declared were not remitted to government, the reason being lack of financial resources. Between 1984 and 1994 arrears averaged at more than tshs. 1.4 billion.

The Share of net Transfers in GDP and Government Expenditure/Revenue

An analysis of the net transfers between PFs and the Government in relation to GDP and government expenditure and/or revenues further underscores the burden that the PFs had on the economy. From table 3 it can be seen that, between 1984 and 1986, the net transfers relative to GDP ranged from 3% to 6%. The latter appears modest, but in the ensuing period (1987 to 1995), the ratio jumped to between 11% and 41%. The major reason for this jump is the sharp increase in the PFs foreign loan obligations guaranteed by government.

On the other hand, when these net transfers are examined relative to government expenditure, the ratios are quite high. Between 1984 and 1986 the range is between 8% and 17%. In the ensuing period ending in 1995 the range is between 53% and 120%. These high ratios denote that government expenditure on PFs comprise a large share of its total payments, although most of this expenditure is implicit in nature. Nonetheless, it sends a warning message to the government of the impending problems that are linked to the poor performance of the PFs. The worsening financial position of most of PFs continues to compel the government to eventually settle such debts or loans. Apart from the accumulated losses that have been referred to above, the working capital for most of the PFs studied was negative. For the 57 PFs studied closely, the percentage with negative working capital between 1984 and 1995 was between 22% and 41%. In principle, most of these companies with negative working capital will be in serious financial problems because the government does not provide subsidies any more, and secondly, the banks are unlikely to support them due to reform measures being taken on them through the privatization and/or commercialization initiative.

Share of Explicit Inflows in Government Revenue

An analysis of the explicit inflows (taxes and dividends) relative to government revenues ranged from 14% to 23% (see table 3 col. 6). Although these ratios may appear high, they do not match the high level of capital formation that was taking place in the sector, as pointed out above, which actually ranged from 13.5% to 34.5%. It has to be remembered that the PFs took a large share of the monetary/ commercial economy. Hence the government ought to have derived most of its revenues from the sector. The low level of performance of the PFs in generating revenues for the government underscores the problems that the government has been facing to finance its budget.

Share of Explicit Transfers (subsidies & grants) in Government Expenditure

A further analysis of explicit transfers (subsidies, additional investment in shares and grants) relative to government expenditure results in ratios ranging from 5.7% to 12% (see table 4 col. 2). These results do show that a large share of government scarce resources was being used to finance deficits of a sector that was supposed to provide more resources to support government initiative in other sectors. If the contributions to PFs were netted out of the national government budget, it is quite possible budget surplus could have been posted in some of the years. A study done in Philippines revealed that netting of government contributions to PFs from its budget could lead to a budget surplus in five years out of the 10 studied (Manasan et. al. 1988).

Table 3: *Aggregate fiscal flows relative to GDP, government expenditure and government revenues*

Year	Net effect/ GDP (%)	Net effect/ Rec. Exp. (%)	Net effect/ Dev. Exp. (%)	Net effect Total Exp. (%)	Explicit flows (taxes & dividends) /Govt revenue (%)
!984	6.30	22.9	70.9	17.3	15.0
1985	5.90	25.1	76.5	18.9	18.8
1986	2.60	8.70	56.0	7.60	20.3
1987	41.9	139.3	838.7	119.5	14.0
1988	16.5	66.5	416.9	57.4	23.6
1989	21.7	100.2	120.1	92.5	23.6
1990	26.7	109.9	828.0	97.0	17.7
1991	23.9	96.2	1638.6	90.8	22.9
1992	15.7	67.0	261.7	53.3	20.0
1993	33.2	129.2	585.4	105.9	21.8
1994	14.0	59.3	763.6	55.1	17.6
1995	11.1	83.3	6458.9	82.3	17.8

Source: The figures have been computed using data appearing in table 1 i.e. for net effect data and appendix 3 for basic statistics.

Table 4: *Share of explicit and implicit flows in government expenditure*

Year	explicit outflows (subsidies &grants)	Implicit outflows Govt Expenditure
1984	5.70	21.5
1985	11.0	20.0
1986	11.3 /Govt Expenditure	8.80
1987	9.90	119.9
1988	8.50	66.5
1989	11.3	99.9
1990	11.9	98.3
1991	9.60	100.8
1992	10.7	53.6
1993	8.60	109.5
1994	3.60	64.6
1995	9.30	91.8

Source: Extracted from tables 3.13 and 3.14 of Report of PSRC.

The Share of Implicit Out-flows in Government Expenditure.

An analysis of the implicit out-flows (unremitted taxes, dividends in arrears, tax exemptions, increase in government guaranteed loans and their respective interest etc.) relative to government expenditure point to a situation that is alarming. The ratios range from 9% to 120% (see table 4 col. 3). The high ratios occurred in the latter period of the study. This is the period when there was massive devaluation of the currency which led to inflating of the loan balances. The interpretation is: the government is loosing either through the exemptions or unpaid loans as much as its own full budget. Again these figures underscore the level of burden of the parastatal sector on the economy.

Evidence From Other Studies Using Other Methods

From the results obtained above, the negative contribution of the PFs to government sector are supported by other studies. As pointed out by Doamekpor (1998), many studies have come out with negative net financial results. It is also pointed out that several of the public enterprises received substantial operating subsidies prior to privatization. For countries like Algeria and Egypt, net financial transfers from government to Public enterprises, computed as a percentage of their gross domestic products were 19.3% and 5.2% respectively. Also it is pointed out that debt problems that confronted several of developing countries prior to the mid-80s were partly attributed to the activities of public enterprises. For many emerging countries, the sub-optimal performance has underscored the need for reforms and stressed the importance attached to privatization programmes implemented in most countries.

CONCLUSIONS AND IMPLICATIONS

The PFs sector grew tremendously in the past two decades. It contributed a large proportion of gross capital formation, but its fiscal impact has been limited. The results presented above clearly show that the parastatal sector has not fulfilled the role of providing resources to the government sector. In view of the fact that they were formed to control the major means of production, this would imply that they would also be the major contributors to the government sector in form of dividends and taxes. The results of the study have indicated clearly that the sector is a net drawer of resources. Using the words of Manasan et al. (*op. cit*), 'it (the sector) gobbles up a disproportionately huge portion of the government's financial resources.'

Secondly, the fact that the parastatal sector performance has been poor, as evidenced by huge losses accumulated and very weak financial position, they have continued to draw more resources in the form of subsidies and subventions thus accentuating the fiscal burdenof government. This has the effect of crowding out resources that would otherwise be used for financing other priority needs within the government sector.

Thirdly, the parastatal sector was over-privileged by being provided with excessive tax exemptions, contrary to expectations, consequently depriving the government of resources needed to bolster more urgent needs in the sector.

Fourthly, the fact that most of the parastatal firms were established through external loans which they could not repay, have placed greaterburden on the government to repay given its role as the guarantor. The burden surrounding the government is becoming explicit now than before in lieu of the privatization and winding up taking place.

Given the situation described above, the government has no other choice except to expedite the crucial task of privatizing the solvent firms and closing all sick. The halting of financing of the PFs deficits may have far reaching positive effects on the government budget. The greatest challenge that the government has is of accommodating the losses arising from the huge outstanding loans and the costs of laying-off the workers.