SOCIO-ECONOMIC IMPACT OF PRIVATISATION: THE TANZANIA EXPERIENCE

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Abstract: In Tanzania and during the short run period privatisation has had both positive and negative effects to the economy. The positive impact seems to outweigh the negative. Positive divestiture results can be measured by the number of firms that have been divested, performance of firms which have already been divested, performance of firms, particularly those involved in the supply of public utilities which for the time being remain in the public sector domain, and the degree of competition enhanced by privatisation in general. Negative divestiture results seem to hinge primarily on the number of retrenchees. This factor call for further research to quantify the exact amount of loss of job opportunities, since there are cases where divestiture led to an increase in job opportunities. Indeed there are also cases where some of the retrenched were redeployed.

INTRODUCTION

Privatisation is the act of reducing to role of government, or increasing the role of the private sector in an activity or in the ownership of assets.[1]

Given the severity of poverty and the pace of population growth, most low-income countries have no choice but to accelerate economic growth if they are to provide new job opportunities and reduce unemployment. The respectable Gross Domestic Product (GDP) growth rates of successful performers in Sub-Saharan Africa are not enough to make a serious dent in poverty - or to generate enough new, productive jobs, to replace those that may be lost initially through privatisation or civil service reform. With population increase of 3 percent a year, GDP growth of 4 to 5 percent means per capita increase of only 1 to 2 percent. At this rate, it would take low-income countries more than half a century to reach the living standards of today's middle-income countries.[2] Tanzania's Development Vision 2025 envisages a catch-up with middle-income countries by the year 2025.

In addition to slower population GDP growth of 7-8 percent in real terms - with the benefits shared widely - is needed to reduce significantly the number of people living in absolute poverty below the current level of one billion. Rapid growth is also needed to maintain harmony among different groups competing for their share of the economic pie in increasingly pluralistic political systems.[3]

Needed now are stronger actions to reform public enterprises and faster and deeper programs of privatization to produce macro-economic improvements through major reduction in fiscal deficits and general improvement in business conditions. Simultaneous action is needed on both fronts - public enterprises reform and privatisation are not "either or" propositions.[4]

Rationale for Privatisation

Privatisation programs often cite a laundry list of objectives, including reducing the fiscal deficit, raising revenue through asset sales, generating additional

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1 Savas E. S., 1987: 3

2 Wolrd Bank, 1995

3 *Ibid*

4 *Ibid*

tax revenue, encouraging the return of flight capital, promoting foreign direct investment, deepening and broadening domestic equity markets, boosting investor confidence, increasing efficiency and fostering competition, improving the quality of goods and services and reducing the state's role in the economy.

Some of these objectives such as reducing the fiscal deficit or raising revenue could be direct outcomes of privatisation. Others, such as increasing efficiency and productivity are longer - term objectives that depend on what new private owners bring to a company. Privatisation is merely the first step, albeit an important one, in restructuring of former state enterprises (Active restructuring however, should generally be carried out by a company's new owners).[5] This multitude of objectives boils down to three key issues.

First, getting the government out of business by strengthening market forces to promote competition, which will increase productivity and efficiency, lowering the cost and raising the quality of goods and services (Galal *et al*, 1994).[6]

Second; generating new sources of cash flow and financing for enterprises - by eliminating government crowding out of equity markets, encouraging the return of flight capital, promoting foreign direct investment, facilitating domestic savings and investment and broadening and deepening domestic equity markets.

Third, reducing the government's fiscal deficit by using privatisation revenues to retire external and domestic debt, reducing fiscal transfers to state enterprises and increasing tax revenues through the higher profits generated by privatised enterprises.

Arguments for and Against Privatisation

Arguments for privatisation include, first: the immediate revenue generation through sale of publicly owned assets as opposed to fiscal drain from public coffers. Second, the exercise attracts new investors from within emerging markets and from abroad. This means that by providing opportunities for broad access to financial markets by all members of society, through the stock exchange, privatisation can be justified. Third, investment comes from a variety of sources, including retail investors, institutional investors, and corporate investors. Fourth, the exercise encourages private capital flows to emerging markets. Fifth, the exercise is a partial answer to the debt crisis. External debt spiralled out of control, leading to years of macroeconomic instability, painful economic adjustment, and low or negative growth. A developing country could not continue to absorb the fiscal burden of state enterprises.

Whereas the effects of debt crisis cannot be minimised a number of other developments in the 1980s made privatisation inevitable in any event (World Bank, 1998). First, was East Asia's outstanding economic performance. Despite significant differences in their domestic economies and industrial structures, Hong Kong, the Republic of Korea, Singapore, and Taiwan (China) pursued a growth model based on intense competition, an outward orientation emphasising exports and international competitiveness, and a significant role for the private sector. Second, there was growing recognition that other models of economic development - such as central planning model of the Commonwealth of Independent States, Central and Eastern Europe, Vietnam and China and import substitution model of much of Latin America needed to be changed. A third development is what some analysts call the fourth industrial revolution. Driven by information technologies, this revolution involves industries such as telecommunication, computers, micro-electronics, robotics, fibre optics, and advanced and composite materials. The technology embodied in these industries helps determine

5 World Bank, 1998

6 Ahmed Jones & Vogelson, 1994

competition in many others - yet they have been largely absent in developing and transition economies. The pace of technological change and the research and development commitment it requires have made it counter productive for many firms to remain under the control of the state, where decisions are politicised and response to market pressures is sluggish. Fourth factor; state enterprises played enormous roles in industry and services. However, in many closed economies these state enterprises were overstaffed, had poor financial and export performance, depended on subsidies and unilateral budget transfers, and relied on their protected monopoly status. And because state enterprises are often important suppliers of goods and services to the private sector, their poor performance undermined private sector performance particularly in protected markets. In the mid-1980s countries like Mexico tried to restructure large state enterprises. It quickly became apparent, however, that restructuring would be long and difficult, requiring extensive resources and substantial labour reductions and offering a few short-term benefits. The bureaucracies that were incapable of managing these firms were certainly not capable of turning them around. Fifth, many industrial countries expressed strong ideological commitment to private enterprise. That left no much choice for developing countries. Finally, the political and economic revolution in Eastern Europe and the Soviet Union's, Glasnost and *Perestroika* (literally meaning openness and economic reforms) since 1989 gave privatisation a new push.

The scanty literature on arguments against privatisation is: first; that public ownership promises social progress as opposed to privatisation. Second, privatisation shifts ownership of major means of production from the majority to the minority. This process marginalizes the indigenous population's influence in decision-making processes particularly in cases where participative management was previously institutionalised. Third, the huge public sector created many employment opportunities to the indigenous population. Privatisation tends to go hand in hand with retrenchments and thus reduces employment opportunities. Fourth, privatisation is panacea only in efficient provision of private goods and services such as bread and butter, but not public goods and services such as education, health and security. The argument is stronger for pure public goods compared to merit goods. Fifth, privatisation of natural monopolies such as railways, electricity, and water supply does not change the inherent monopolistic characteristic of such industries. Due to their inherent characteristics, public utilities are considered to be natural monopolies. Industries which supply directly or indirectly continuous or repeated services through more or less permanent physical connections between the plant of the supplier and the premise of the consumer and public transportation agencies are generally regarded as the two major types of a diverse group of businesses which tend to operate more efficiently as monopolies. Privatisation of such particular industries has to be preceeded by attendant regulation "*to tame the tiger*" so that investors would be justified to earn a just and reasonable return, while public interest shall be guarded within regulatory frameworks. The argument, therefore, consists in weak regulatory and enforcement capacity for public utilities.

Sixth, restructuring of state enterprises with professional management inputs by contracts would turn around a state firm. Seventh, for low income countries such as Tanzania only the minority may afford to participate effectively in private ownership due to income poverty. Countries like Tanzania have few indigenous entrepreneurs despite a pool of experienced managers from the parastatal sector experience (1967-1992) such pool had no private sector management skills as a result that may invite *externalisation* of management.

Social and Economic Aspects of Privatisation

The immediately noticeable impact is financial in nature as depicted in Table 1.0 below.

Table 1: *Financial Impact: Privatisation Revenues (1990-96) in Million U.S. Dollars*

Country	'90	'91	'92	'93	'94	'95	'96	total
Tanzania	-	-	03	27	05	77	13	124
Kenya	-	01	08	-	12	13	137	170
Uganda	-	-	12	19	24	47	30	132

- Not available

Source: (1) World Bank Privatisation Database
(2) World Bank &. Flemings (1998) Table 1. 1. p. 13

Table 1.0 reveals that between 1992-1996 privatization revenues amounted to a total of US $ 124 million. This is not an insignificant amount. Compared to Kenya and Uganda, Tanzania collected the least amount in the intervening period.

The ESRF (1996) made a survey of six former industrial parastatals which were divested. The sample of the general public composed of individuals with good experience and an understanding of economic and social reforms such as politicians, academia, private business-men and top executive practitioners.

In general, many respondents were aware of the importance of parastatal reforms and many argued that privatization of PEs was the only viable "door" of entry into modern industrial sector.

The other issue was whether Tanzania had a viable private sector capable of taking over PEs; being privatised. The argument is: what was needed was a creation of a broad based social constitu-ency which will drive and support economic reform measures thereby stimulating a conducive macro- environment that would enable the private sector to become the engine for economic growth. Lack of active partici-pation of the indigenous population and the fear of increasing domination by foreigners and/or Asians is another issue worth contending. In addition, the shifting of the major means of production from the Government (the legitimate rep-resentative of the indigenous population) is regarded to be synonymous with shifting economic power to foreigners; obviously, this has implications on the balance of political power.

The study suggested that, apparently, the local private sector was basically limited by lack of funds that would have enabled individuals to actively participate in the privatization process. Panacea to this problem includes initial start-up funds contributed by workers and other indigenous persons. Collective invest-ment schemes such as "Employee Share Payment Schemes" as occurred in the case of American Airlines, where workers are the majority shareholders could be applied to Tanzania. This model could be facilitated by the use of funds accumulated by the very employees through NSSF and PPF. An employee would thus in effect be mortgaging his/her own pension.

In 1993 there was a large amount of confusion regarding the relationship and operations of the PSRC and the Loans and Advances Realization Trust (LART). An amendment was made on the PSRC Act that once a company got transferred to LART, any role played by PSRC came to an end. A more confusing case occured where the definition of assets and asset holders was not transparent. For instance, the case of Texco and Urafiki Textiles. TEXCO a holding corporation was put under LART while its associate Urafiki was under PSRC. The definition of assets was not very clear and it was not clear whether this definition actually included shares. Attempts were made to rectify this on the Companies Ordinance Cap. 212, as well as LART and PSRC Acts.

Bureaucratic Foot-Dragging

Bureaucratic red tape has been very detrimental to divestiture and in certain cases the delay and inefficiency has almost cost the Government the entire project. i.e. failure to sell the project as an on-going concern. Thus, the project (s) had to be disbanded and the assets sold "piece meal." Two such cases were the Tanzania Hides and Skins (THS) and Tanganyika Packers Limited (TPL).

Privatisation is both a political and economic process.[7] Privatisation is a tool of reform, which many have come to believe to be the appropriate course of action for Tanzania. This confidence in the policy has nothing to do with ideology, indeed if ideology was the driving force one would not see privatisation in Cuba (which privatized its telephone system by June, 1996) or China or India. Rather, this confidence rests on the fact that there has been a serious and prolonged institutional failure that has allowed massive losses on the part of public sector companies. Inefficiency invariably emerges in such companies which sooner or later undermines the strength of the economy and it is the poor who have suffered most.[8] The fact that informed society believed that privatisation is the right course of action for Tanzania can be taken to mean a positive social dividend.

On record, institutional failure has ~~been~~ that of the public sector company. The private joint stock company has been one of the most powerful inventions of the past two centuries. The delicate balance of power and responsibilities between private shareholders, the Board, the Auditors, the bankers, the management and the employees within the framework of corporate law and complex of regulations on consumer and employees safety, on accountancy and other professional standards does deliver results and accountability.[9] However, if government owns shares, the balance of powers breaks down. Multiple objectives such as employment growth are added to any commercial objective, shareholders are unlikely to replace non-performing boards; Boards are unlikely to replace non-performing management; state banks are unlikely to foreclose; merger or acquisition or changes in company functions are difficult to consider.

The private joint stock company does not protect against failures ferries sink (like the Spirit of Free Enterprise in the North Sea, in 1993), companies fail (like Pan American World Airways) and Banks collapse but the private joint stock company does deliver a significant degree of accountability that prevents failure from compounding. For example, shareholders in a private company would not have accepted a situation in which the auditor could not confirm the accounts for 15 consecutive years (as happened in Air Tanzania Corporation until its recent turn around), or one in which debts accumulated until they were four or five times the value of the company (as has happened often e.g. with Morogoro Polyster Textiles).

Public servants seem to suffer a hangover from past policies. Despite evidence of massive misuse and misappropriation of resources in the public sector, caused by institutional failure public servants are inclined to see the risk of comparable misuse of resources by the private sector. One cannot detect any real differences between public and private sector business behaviour other than in the institutional set-ups. Public servants have a duty to the many informed members of society who believe in the efficacy of privatisation. They should conceive their current role as the need to promote, support and facilitate the growth of

7 URT (1997) PSRC1996/97 Review and Action Plan for 997/1998, September

8 E. Bevan Waide-OBE (1996) 27th June - Then Lead Advisor, PSRC.

9 *Ibid*

the private sector. They should outlive the hangover from part policies.

Businessmen, the world over seek survival or profitability or a bigger market share, and thus may be tempted to take short cuts. It is the responsibility of the regulatory framework to keep the system on a straight path. The political process of reform started in January 1992 whereby a resolution on parastatal reform was passed by the National Executive Committee of the ruling party. This was followed by interim legislation in the form of an amendment to the Finance Bill of mid- 1992. Neither attracted significant debate and there was only limited public debate when the main enabling legislation - The Amendment to the 1992 Public Corporation Act -was introduced and passed in late 1993. This amendment defined the objectives, policies and procedures of Parastatal Sector Reform Commission (PSRC). The continued absence of broad advocacy of the new policies was in marked contrast to the enthusiasm with which the Arusha Declaration was advocated and received, with public marches and like celebration. This shows the difference between populist political policies and economic policy.

The parastatal reform instruments are not, however, limited to those used by PSRC. Five other instruments, which preceeded the establishment of the Commission, have been in use and have had collectively a major impact. These are: external trade liberalisation, which reduced or eliminated the protection enjoyed by many firms; internal trade liberalization, which likewise allowed entry of other firms to compete with parastatals that had been in monopoly position; banking sector reform, which gradually required the public sector banks to take a commercial approach towards lending to parastatals; price reform, especially exchange rates, interest rates, and removal of virtually all commodity price controls; and budget constraints on the flow of subsidies, equity injections and other transfers to parastatals.

These instruments are all part of the adjustment policies adopted in the post 1986 period. The application of many was initially far from strict especially the flow of import support funds to parastatals but gradually became tighter.

Ironically and as in the case of many structural adjustment measures the constraints they imposed on individual companies made the adjustment to the new competitive situation more difficult.

It is noted at this juncture, that the term structural adjustment has been used far more often that it has been defined. Various definitions have been offered over time. Some of these definitions, changing with time. There is a distinction that has to be made at the outset between change that occurs automatically through the market as the response of economic agents to changing demands and opportunities and change that is induced by the manipulation of policy. Structural adjustment belongs to the later.

As Killick (1993) put it, adjustment can be thought of as induced or planned adaptation in which case adjustment policies are instruments deployed to achieve the desired adaptation and to enhance the economy's flexibility. Structural adjustment should logically be regarded as measures to adapt specifically structural variables, particularly the productive system and the physical and institutional infrastructure.[10]

IMF AND WORLD BANK APPROACHES

The term structural adjustment entered into international parlance in 1980 when the World Bank introduced structural adjustment loans (SALS) as a new type of credit. There were two principal reasons for this innovation.

First, a perception that the world environment had become markedly more hostile for most developing countries. This was the time of the second oil shock and an

[10] Tonny Killick, 1993: 67-68

associated recession in the industrial world and that these countries stood in urgent need of long term support for their efforts to cope with the resulting balance of payments dislo-cations than the IMF was designed to provide.

Second, a growing perception that policy mistakes in developing countries were in some cases preventing an adequate response to the worsened environment and, more generally, were retarding economic development as well as reducing returns on past Bank financed projects.

During the course of the 1980s however, the bank's original emphasis on the BOP gradually faded, with a corresponding increase in the stress it placed upon "conomy-wide programs of reforms." More recently, the Bank switched emphasis from SALS to sectoral adjustment loans which, have narrower policy objectives, although the general policy thrust is similar.

The position was further complicated when in 1986 the IMF set up a new Structural Adjustment Facility. This too was intended to provide medium term balance of payments assistance to low income countries facing protracted balance of payments difficulties for a program of policy measure to be worked out with IMF and Bank staff.

It was augmented at the end of 1987 by an Enhanced Structural Adjustment Facility (ESAF) with considerably greater resources than the original Structural Adjustment Facility. In some respects the Extended Facility of the Fund set up in 1974 was a precursor of the ESAF, not least because, for the first time, it engaged the IMF in medium-term policy programs aimed at strengthening the productive structure.[11] Given the nature of the IMF, the chief objective in each of these facilities was to help a country achieve balance of payments viability. In most cases, the supply side measures written into the programs were in addition to the IMF's traditional emphasis on short-term demand management, which involved credit restrictions, reduced budget deficits, and exchange rate depreciation.

The World Bank has offered the following description of its usage of the terms by the late 1980s, and the IMF subsequently provided a similar account (IMF, 1989).

Adjustment Policies to achieve changes in internal and external balances. Changes in the structure of incentives and institutions or both constitute structural adjustment. The term encompasses reforms of policies and institutions micro-economic (such as taxes), macro-economic (such as fiscal imbalance) and Institutions (public sector inefficiencies)

These changes improve resource allocation, increases economic efficiency, expand growth potential, and increase resilience to future shocks.

It is apparent that there are areas of overlap between these usages and one given earlier as suggested by Killick. Common to them are ideas that adjustment is a response to shocks and other changes in the economic environment; that it involves policy changes, that it is a planned process, that it is not a short-term task and that it involves attention to an economy's basic structure. Important difference may be noted however, concerning breadth and length.

Breadth

International Financial Institutions assign special importance to the foreign exchange constraints while Killick bring in other factors such as changing climatic conditions, technological progress and long term shifts in the pattern of demand.

Killick (1993) also introduces a wide range of factors that influence adjustment including political, social and environ-mental and therefore places less emphasis on purely economic interpretation.

[11] Tonny Killick, 1993: 69-70

Length

This has to do with the speed with which economies can respond to changing circumstances and to the period over which such responsiveness is necessary.

Killick *et al* (1993) have shown that adaptation to change is a continuous necessity. Whereas International Financial Institutions appear to view adjustment as "The economics of transition - preliminary to resumption of the development effort and to address themselves particularly to the management of shocks" Killick stresses that it is long term inseparable from development and not merely a transitional phenomenon.

"Fiscal stance" extent to which the overall balance of government revenues and expenditures has a stimulating or dampening effect on economic activity.

Killick[12] *et al* suggest the following criteria for government choice of policy instruments, other things being equal; that:

1) Have the most powerful impact on the target variable;
2) Are the most likely to succeed and to bring the quickest results;
3) Act upon the causes of the problems, whenever appropriate;
4) Are selective and flexible;

Table 2: *Target Variables and Policy Instruments for Economic Flexibility*

Policy Instrument	Example of use	Private Investment	Social cost Minimization
Fiscal Policies			
Taxation	(a) Investment Incentive	P	-
	(b) Tariff Protection	-	-
	(c) Taxation of fuel	-	N
Expenditure	(d) Food subsidy	-	P
	(e) Economic Services	P	-
	(f) Social Services	-	P
	(g) Infrastructure (maintenance	P	-
	(h) Investment)	-	N
	(i) Increased taxes (Spending cuts)	-	-
	(j) Domestic Borrowing (Non-bank)	P	-
	External borrowing		
Financial-Monetary			
Interest rates	(k) Decontrol	-	-
	(l) Manipulation of bank reserve ratio	N	-
	(m) Devaluation	-	N
Administrative controls exchange controls	(n) Restrictions on capital out flows	P	-
Price and wage control	(o) Minimum wage laws		
	(p) Increased agricultural producer prices	-	P/N
Relative to firms	(q) Company law; anti monopoly law; patent law.	-	-
Relating to land tenure.	(r) Break up of large estates.	-	P
Public enterprises	(s) Development banks	P	-
Information services.	(t) Economic indicators	P	P

Source: Tony Killick, Table 5.1 Notes: P= Positive effect; N= Negative effect - = No effect.

5) Maximize favourable rather than unfavourable indirect economic and social political effects; and
6) Are most likely to evoke supportive public response.

CASE STUDIES

The following are a sample of parastatals that have either undergone or anticipate privatisation under the umbrella of PSRC:

Tanzania Hides and Skins (THS)
Tanganyika Packers Limited (TPL)
Tanzania Cigarette Company (TCC)
Tanzania Tobacco Board (TTB)
Tanzania Breweries Limited (TBL)
Morogoro Polyster Textiles limited (POLYTEX)
Morogoro Shoe Company (MSC)
Southern Paper Mills (SPM)
Air Tanzania Corporation (ATC)
Tanzania Telecommunications Company Ltd (TTCL)

Several conclusions emerge from the sample, namely:

i) Only TCC was profitable at the time PSRC was created though it was much less profitable than the industry standard;
ii) There was systematic under invest-ment in equipment, maintenance and people, prior to privatisation;
iii) The involvement of a consortium of donors in a public enterprise was no guarantee of success (TPL, PLYTEX, MSC, SPM);
iv) Management contracts did not deliver solid or permanent benefits (SPM, POLYTEX, TPL)
v) Substantial and unserviceable debts have damaged both the domestic banking system and Tanzanian's credit worthiness;
vi) Taxes and Government revenue from dividends were a fraction of what could have been achieved;
vii) By and at large, it was the poor who suffered most from parastatal non-performance (cattle farmers, tobacco and cotton farmers) rather than the Boards, executives or civil servants;
viii) Exports also suffered severely;
ix) We are beginning to see major turn around in privatised companies (TBL, and MSC) and in companies anticipating privatisation (TTCL, ATC);
x) A large pool of experienced managers, foremen, engineers, technicians and labour leaders has been created (albeit with a culture not fully emanable to the pursuit of corporate excellency) who have learnt a lot from experience.

Positive Divestiture Results

Progress of the divestiture programme can be measured in four ways:

i) The number of firms which have been divested;
ii) Performance of firms which have already been divested;
iii) Performance of firms which for the time being remain in the public sector domain; and
iv) Extent of preparations for future divestiture.

Number of Firms Divested by June 1999

Year	Number of Parastatals divested
1992	11
1993	48
1994	36
1995	22
1996	43
1997	40
Dec, 1998	70
Jun, 1999	9
TOTAL	279

Source: E. Bevan Waide - OBE and other PSRC reports.

In 1992 only 11 public enterprises were divested, as this was the very beginning of PSRC's learning curve. In 1993 the number rose to 48 almost four times the previous year. In 1994, it was 36 moving further down to 22 in 1995, which was a general elections year. The momentum for privatization gathered with the third phase government's review and emphatic endorsement of policy. In 1996, the number climbed to 43. It steadied at 40 in 1997 and finally making a record of 70 by December 1998 probably inspired by the desire to beat the deadline when PSRC was initially expected to wound up. Up to mid-1999 only an additional 9 firms were divested as PSRC moved into the more difficult arena of public utilities.

Selling or closing down a public company is however an inherently complex and time consuming business and it would be difficult indeed irresponsible, to promise an average divestiture rate much in excess of say, 50 per year.

The composition of roughly 120 enterprises divested by PSRC by June, 1996 is interesting.

Divestiture, by type

Sales of shares or assets.	55
To major multinationals	9
To other foreign firms	8
To indigenous buyers	21
To other local buyers	17
• Liquidations	25
• Closures	13
• Leases	24
• Performance/ Management contract	3
• TOTAL	120
• Liquidation under LART	20
• TOTAL	140

The sale of shares or assets thus accounted for 55 companies slightly exceeded the 48 liquidation or closures including those under LART. Of the 55 companies sold, joint ventures with major multinational accounted for 9 but an important nine. The companies concerned were RJ Reynolds Tobacco SA (for TCC); INDOL, a subsidiary of South African Breweries (for TBL) ABB, the electrical goods manufacturer (for TANELEC), de Beers, which now owns 75% of Williamson Diamonds Limited; Holderbank which purchased a majority shareholding in Tanga Cement Company; Scancem (which with Swedfund; was moving into a majority position in TPCC) Metal Box, Tata Engineering, and the Chandaria Group make up the total. Amongst other Companies entering Tanzania are Chinese purchases of 51% of shares of Urafiki Textile Mill and Messrs IBL of Mauritius who purchased a majority of shares of State Travel Services Limited. The privatisation program has become the main vehicle through which overseas investors have been attracted into Tanzania. This is another achievement.

The dominant percentage of sales has been to local buyers, especially *Wazawa,* who have purchased, for example, The Kisarawe Brick Factory, Ubungo Garments, Tanzania Pharmaceuticals Industries, Keko Pharmaceuticals, HANDICO (which was the first management buyout) and several farms, hotels, trading and transport assets. These joined the already vigorous medium and small-scale manufacturing, transport, building, construction and trading firms in the private sector. Table 3.0 gives a detailed picture by divestiture type mid- 1998.

Performance of Divested Firms

Major turn around has been achieved in TBL and Morogoro Shoe and the same is expected in TCC. ABB TANALEC in Arusha is expanding and did win a major order for export of transformers to Ghana. Some of the liquidations are also success stories in the own way (such as THS) and significant performance improvements are evident in some of the leased companies, e.g. the Northern Circuit Hotel leased to Nov. Hotel of France.

Table 3.0: *Number of Parastatals divested by mid 1998 by divestiture types*

Divestiture Method	1992	1993/94	1994/95	1995/96	1996/97	1997/98	Total
Share/asset sale	5	18	11	24	25	29	112
Liquidation	0	16	17	9	11	6	59
Closure	4	5	1	7	1	0	18
Lease	2	8	5	7	1	0	23
Performance/Management Contract	0	1	2	0	2	0	5
Restructuring	NA	NA	NA	NA	NA	2	2
Flotation	NA	NA	NA	NA	NA	1	1
Total	11	48	36	43	40	38	216
Under LART	0	11	9	0	0	14	34
Total Divested by PSRC	11	59	45	43	40	52	250
Non-core Assets	NA	NA	NA	NA	NA	9	9

Footnotes
1. - Includes 14 companies *ceded to LART during* the year
NA - *Not available / not applicable*
2 - *Mostly* done by relevant ministry *directly before formation of PSRC.*

Source: URT (1 998) "PSRC 199 7/ 98 Review and Action Plan *for 1998/99" August, P. 1. (with corrected sum up errors)*

E. Bevan Waide had major reservations over whether leases offer a satisfactory long term restructuring solution. The reason offered is that sooner or later, new investment is needed: a lease gives the tenant less incentive and less scope, to take the long term view than an equity investor takes. The author concurs with this view.

Performance of Firms Remaining in the Public Sectors

The combined effects of the hard budget constraint, financial sector reform, and restructuring induced in part by the expectation of privatisation in due course, has led to a marked improvement in financial performance by companies still in the public sector. This can be illustrated by reference to two dozen top loss - makers in the 1988-1991 period (data in the Master Plan Appendix 2) Each lost $ 1 million a year or more in that period. Of these 24, 17 had been sold or was in process and had become profitable or were profitable in the public sector and were being liquidated. The remaining 7 were unprofitable. Of the five biggest loss makers in 1988-1991, the National Milling Corporation was downsized and was profitable. TANESCO was marginally profitable, as was TTCL, Morogoro Polyster Textiles was operating on a reduced scale but made modest losses in the run up to privatisation while

Mwanza Textiles was under liquidation. Four of six companies that were scheduled for liquidation were textiles firms.

Seven persistent loss makers included Mbeya Cement whose losses had been reduced but not to the point of attracting a buyer. A lease or mothballing were considered. Kiwira coalmine sells coal to both Mbeya Cement and SPM. Several attempts to find a joint venture partner for SPM have been made by its holding company, NDC (then) but without success although it remained a promising turn around candidate, having undergone a major financial restructuring. Buyers were sought for the assets of Tanzania Sisal Authority and Kilimanjaro Machine Tools in 1996.

While intractable problems remain, the outflow of public funds has been markedly reduced and has been replaced by the flow of privatisation proceeds and enhanced taxes from companies that are performing better. Sustained employment and improved living standard can come only from improved corporate performance.

One of the achievements of the past decade's economic reforms has been the removal of almost all distortions in prices, which now make it possible to hold managers and Boards responsible for performance. This is another significant achievement.

Preparation for Future Divestiture

In TTCL, the telephone monopoly, reforms began in 1993 primarily in the context of a project funded by the World Bank and six other donors. The first reform step was to separate posts from telecom and to set up each as commercial enterprise with new accounts. Then, the Tanzania Communications Commission was set up and staffed. Both these steps required legislation.

Third, steps were taken to divest TTCL of responsibility for various noncore activities, hence the emergence of private investment in subscriber premises wiring and equipment, in cellular telephones where two companies have been licensed, in pay phones data transmission and the like.

Fourth, financial restructuring was carried out in the context of the project to enable TTCL to emerge with an acceptable equity ratio. Finally, a substantial ($ 250 million) but long overdue rehabilitation and expansion project was begun with the intention that private capital begins to take over. In the meantime Government did concur in principle with the divestiture path of seeking a joint venture partner for TTCL, with management control.

Before invitations are issued, however, clear decisions must be reached on extent of timing and nature of any future competition for TTCL because this will have a material effect on the value of TTCL shares. It also needs to be ascertained that the contributions of the various donors/lenders to TTCL are not in a form that inhibits the divestiture process.

Another example is that of Sugar Estates under SUDECO, and SUDECO itself. Tanzania is but need not be, a net sugar importer and SUDECO and its subsidiaries account for most production.

Privatising the Sugar Estates required consideration of policy towards the sector e.g. what future protection can reasonably be assured? What is the role of smallholder outgrower? Can title to the land be transferred or would land be leased? Can buyers be expected to take over existing debts?

What kind of buyer (s) would be best for the country. The issues to be tackled were identified in 1994 and bilateral donor with long interest in the sector agreed to fund necessary consultancy.

In conclusion, the reform progress has been dramatic. There can be few countries in which the ruling party remained in power, yet has executed pretty effectively such a major turnaround in both policy and performance.

Constraints

First, inherently lengthy preparatory steps are part of the privatisation process. The seller represented by PSRC, has to know what he is selling: Does the company hold good titles to its assets. Are there unrecorded taxes, debt service or pension liabilities. Is government policy towards the firm in question clear e.g. textiles)? What are the firm's strengths and weaknesses? PSRC has to know these in order to strike the best deal. If preparations are not thorough negotiations tend to stall.

Second, need for adherence to procedures. It is a common occurrence for potential investors to express interest in a particular firm, and it is tempting to management, Boards and Ministries to try to arrange a deal. But experience shows that there is merit in the procedures laid down in the master plan, under which competitive bids and formal tender evaluation were emphasized. It can be put on record that PSRC did stick to its procedures and as such the programme has not been disrupted, as it has elsewhere, by any allegations of improper processes.

Third, need for consultation. Privatisation is an inherently political process. There are gainers and losers in both policy and material terms. It is also a process that generates uncertainty because the outcome, company by company cannot be wholly predicted. Under these circumstances, extensive consultation to diminish apprehension and to enable those concerned to see that their view points have been heard if not accepted is not only inevitable but a desirable, in an open democratic society with a vigorous media.

A lot of weight is thus given to securing acceptance of the proposed course of action. Government is reluctant to impose decisions arbitrarily.

Fourth, impact of advocacy. Given the open consultative framework interested parties have not hesitated to create opportunities for advancing their interest. It is not in common for donors to seek to advance their own commercial interests regardless of the interest of the country. Losing bidders may not accept their loss. Strong parastatal managers have been active in arguing for a particular divestiture path regardless of desirability.

Holding companies remain quite uncertain about their role and future. Some times advocacy is attempted through the courts. All such actions cause delays; not least because of the heavy claims they make on the limited professional resources available for the parastatal reform programme.

Fifth, protecting interested parties. As in any transaction the parties concerned are entitled to protect their interests. Buyers are entitled to ensure that all the titles to properties are in order, for example, and to seek protection against possible unrecorded liabilities for missing assets.

Government must 6nsure that public assets are advantageously and fairly sold, through an Agreement that conforms to the law and that its financial interest e.g. in the case of deferred payments or debts is protected as much as possible. These protections take time to implement.

Sixth, business constraints. The majority of parastatals are loss making and many have large debts posing turnaround constraints.

In over 20 percent of these cases, such problems have led to absence of bids all together (e.g. Minjigu Phosphates, Pugu Kaolin, National Steel Co. or unsatisfactory bids like Tanzania Cables).

Seventh, absence of a safety net policy causes understandable apprehension, even though some of the redundancy payments that have been made have been far more generous than the statutory minima. There is also no explicit safety net for managers or Board members that reflects the full benefits they derive from these positions. This is related to the problems of non-performance and large debts.

Eight, resistance to change within Boards, Holding Companies and Ministries remain, understandably stronger than Ministerial commitments might imply. The change in the roles of government implied by divestiture policy is considerable, but it has not been clearly articulated to the point at which a public servant can envisage his future role.

Likewise, staffs in holding companies find it difficult to accept that they have no future. Government appointed Board members have enjoyed considerable benefits, which will disappear apparently without compensation. Public servants have a fully legitimate responsibility in any case, to ensure public interest is protected.

These constraints will ease as privatisation gains final acceptance, and as government's new role is clarified.

None of the foregoing eight constraints is insuperable but all act as brakes on the speed of policy implementation. Implementation could also proceed if some critical issues are resolved.

ISSUES TO BE RESOLVED

There are really only two issues that remain of central concern to many people. One is ownership and the other is the relationship of Government with business.

Ownership Issue

Ownership change was one of the primary goals of policy in the 1960s and 1970s. Foreign owners and owners of business who were from ethnic minorities were expropriated and discouraged in numerous ways over a long period. Indigenous private ownership was also discouraged and government also in effect, appropriated co-operative forms of ownership. The tool used, i.e. state ownership has not however proven to be a very effective way of broadening ownership.

A combination of successive economic crises and inadequate corporate performance has created an able class of indigenous state managers but one that is in part without the assets to act as effective owners.

The fundamental fact is, though, that the rate of savings in the country is very low - around 5% and insufficient to purchase shares or expand the corporate sector at the needed rate. The only way in which nationals can own the bulk of productive corporate asset is if national savings are increased and channeled into corporate ownership. In fact, the main way in which savings are generated is within companies and within the financial institutions, which support them. Small companies become large, large companies in the country, perhaps foreign owned find it attractive to raise more resources from local savers whose role in ownership rises.

The Dar es Salaam Stock Exchange, which commenced operations as a private sector company in April 1998 was a significant milestone towards development of a free market economy in Tanzania.[13]

The DSE provides an additional source of equity and loan capital beyond those offered by the pioneering and highly successful Tanzania Venture Capital Fund (TVCF). Tax preference would encourage private family companies to go public, among other measures.

The Government needs to stop absorbing the bulk of national savings (Including sadly, the proceeds from parastatal sales) for recurrent expenditure use. New savings instruments offering attracting positive returns, like Unit or Investment Trusts are required.

But the critical fact is that ownership follows from savings, and as soon as savings of the broad mass of the people rise, so too will ownership.

Relationship Between the Government and Business Community

On the question of the relationship between government and business Ndulu (1986) has explained this phenomena as simply another

13 Trading on the DSE started with shares of Tanzania Oxgen Limited in April, Tanzania Breweries shares were listed on 9 September, 1998

dominant characteristic of African regimes stating that:

> Another dominant characteristics of African regimes is the close link between the state bureaucracy and the private sector, both foreign and indigenous. Elites use state power either independently or in conjunction with private entrepreneurs to enter into the business sphere, tending to create a strong symmetry of interests between the private sector and the state bureaucracy.

Tanzania's reform can be successful as that of Japan. Japanese reform had one characteristic among others, that of a single minded pursuit of effective institutional management, whether the institution was Government, or the military, or private enterprise. Technology was acquired by fair means or others but management was home grown.

Tanzania can improve its capacity for policy analysis so that the country is not rendered vulnerable to the latest whims of donors or unguided leaders. Lack of capacity for policy analysis can partly explain failure in the textile industry rendering it uncompetitive.

The same can be said if the cashewnut industry where production was brought down from 200,000 tons a year to 18,000 before it began to recover recently.

The new role of government will demand policy analysis and policy making of the highest order so that economic management by fine-tuning can be achieved and agreements once entered into can be honoured.

Likewise in business organizations the ability to make sound judgements, to be willing to impose discipline and accountability and to be willing to accept discipline and accountability will be essential.

For the government, along with current efforts to slim down public administration, pay people better and to redefine functions there is also a need to introduce or reintroduce, a consistent management culture. It may be worthwhile considering the example of Indonesia, which chose to send hundreds of its public service entrants to a single University - The University of California, Berkeley. Over a couple of decades the demanding training and the shared experience and values have had a decisive effect. This unashamed emphasis on international competitiveness of the elite is perhaps the best way of creating a better life for the poor.

CONCLUSION

It would be premature to assess the long - term benefits of the impact of privatisation. However, in the very short run, the positive socio-economic aspects of privatisation outweigh the negative. Performance of divested firms has generally registered a positive variance compared to the period prior to privatisation. Further research would indicate extent to which privatisation has led to creation of job opportunities in the economy. The very fact that privatisation has made it possible for a low income and low savings country like Tanzania to avoid institutional failure inherent in a public sector company has to be highly appreciated.

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