

**AN UPDATE ON PRIVATISATION IN TANZANIA
(1997 Data)**

A Research Report by

A.E. Temu
Agric Economics and Agricbusiness - SUA

J.M. Due
Agric Economics and Consumer Economics –Illinois

Nov 1997

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Privatization is the term currently used for the selling of government-owned enterprises to private entrepreneurs or to joint private-government ownership with the private sector having the majority of shares. Most of the government-owned enterprises in Tanzania had not been operating at a profit and had been causing a severe drain on scarce government resources, hence the need to privatize. Briefly, the argument for privatization is that private firms will operate more efficiently, will no longer require government subsidies, and scarce foreign capital for inputs and investment but will pay corporate income taxes to the government. They will also allocate labor and capital more efficiently, be more vigorous in finding markets, and will add to the now more competitive economy (World Bank, 1996, Moshi, 1996, Due 1993, Bagachwa 1992, Gray, 1996, etc.).

Privatization in Tanzania began with the liberalization of the economy (trade, price controls, devaluation of the currency, flotation of interest and foreign currency rates, etc.) by the government in the mid 1980s and the formation of the Parastatal Sector Reform Commission (PSRC) in 1992 (Due, 1993, Due & Temu, 1998). The privatization process is lengthy as there were 382 government-owned enterprises (called parastatals in tropical Africa) whose assets and liabilities have to be assessed. In addition PSRC was to establish guidelines as to which parastatals were strategic in nature and, therefore, should be preserved, which were commercially viable and selected for sale, which should be restructured and allowed to operate at least in the short run, and ones which were hopelessly indebted and/or inefficient and should be terminated. Once those decisions were made the ones selected for sale had to be advertised, discussions undertaken with potential buyers, and memorandums of understanding (MOUs) drawn up and signed by the final successful bidder. A year or longer often ensues after the memorandum of understanding is signed as the terms have to be approved by persons in the Ministry in which the parastatal was lodged and then by the Cabinet.

It is important to emphasize the importance of government ownership in the Tanzanian economy. By 1988 Tanzania had 413 public enterprises of which 339 were commercial, 56 non-commercial, plus several holding companies. (An example of a non-commercial parastatal was the University of Dar es Salaam.) The parastatal sector accounted for 24% of non-agricultural wage employment and 13% of value-added, with sole operation of utilities, railroads, ports, a strong presence in agriculture (cooperative marketing, input supply, milling, etc.), mining, manufacturing, banking, and wholesale and retail distribution (Due, 1993). Contrary to the expectations of the state about parastatals, they extracted more resources from the government than they paid back. The net transfers to parastatals were Tsh. 6.3 billion in 1984/5, increasing to over Tsh. 50.3 billion in 1993/4 when the reform program got underway, before tapering off to Tsh. 21.8 billion in 1994/5 (PSRC, 1997). Not only was there heavy subsidization by government to keep the parastatals operating, but there were massive accumulated debts which had to be dealt with as private purchasers began making enquiries.

Progress to date

One might think that, with the relaxation of controls, with foreign exchange more available (thanks largely to the international community) and with encouragement of private enterprise, entrepreneurs would come forward to purchase and operate the businesses. This was true for small businesses but incomes in the country are so low (\$100 per capita), and laws relating to companies, banking, and other financial institutions required change that privatization was slower than expected. For example, a company registration act was passed and other formal policies established. At the same time as the new enterprises were beginning and operating capital was needed, the banks were being reorganized. Thus bank creation of credit was severely curtailed to reduce inflation and carry out the government's monetary policy. These same factors impeded attempts at privatization in Eastern Europe and other African countries.

Given all these factors, what progress has been made? The decision was made to allow divestiture by outright sale, joint venture with government, sale of shares, management buy-ins and buy-outs, and workers' buy-outs. Divestiture, as defined by G. F. Mbowe, Executive Chairman of PSRC (1996) means "sold, leased, liquidated, closed, and/or subject to performance contract" The number of firms divested by year is shown in Table 1.

Insert Table 1 here

As noted from Table 1, 83 parastatals had been sold by the end of June, 1997. Another 67 have been liquidated or closed (usually because capital assets were fully depreciated, the parastatal was thought uneconomical to operate or a purchaser had not been found to date). Twenty-four parastatals had been leased and management contracts completed for an additional 5. The management contracts were signed with the Tanzania Railways Corporation, Tanzania Posts Corporation and. "The 40 parastatals divested between June 30/96 and June 30/97 brought US\$85.9 in immediate investiture proceeds and a further \$113.1 in investment commitments. A further Tsh. 16.3 billion (equivalent to US\$2.7 billion at the current exchange rate of Tsh. 600=US\$1) was realized from the sale of non-core assets of several parastatals" (PSRC, 1997, p.13). Twenty parastatals were placed under LART, a device for debt-holding while an effort is being made to collect the debt. Thus in total 158 parastatals (or 41% of the total) have been divested, but of these 67 (or 42%) have been closed or liquidated while 83 or 52% had been sold.

In an effort to ascertain to whom the parastatals had been sold--whether to indigenous Tanzanians, Asian Tanzanians, foreigners or multinational corporations, by whom they were being managed, and their potential economic viability-- the authors carried out a pilot study of agro-industrial enterprises which had been privatized at least three years in 1996 (Due & Temu, 1998). [Agro-industrial enterprises were chosen so the data could be used for a new agri-business curriculum being initiated by Sokoine University of Agriculture, Morogoro.] Funding limited this sample to the Dar es Salaam-Morogoro areas. Table 2 illustrates some of the results of the 1996 study.

Insert Table 2 here

From that small sample of seven firms, data in Table 2 show that three were joint ventures, three were private sales, and one was a lease. All these parastatals were sold/leased to a private foreigner(1), a multinational corporation (1), or indigenous Tanzanians of Asian origin (5). All were managed by foreign nationals but 6 of the managers had lived in Tanzania for a long time. Of the seven, the possibility of economic viability was good for the multinational, fair for four others and unknown (as no data were available) for the remainder, as shown in Table 4.

The nationalities of the purchasers of parastatals sold as of June 30, 1996 as reported by PSRC are shown in Table 3. Of *total sales of 55* up to that time, 9 went to multinationals, 8 to other foreign buyers, 21 to indigenous buyers and 17 to local purchasers. The distribution of new enterprises by nationality will be ascertained for the the period June 30/96 to June 30/97.

Insert Table 3 here

In choosing firms for study in 1997, the sample could not be limited to newly privatized firms operating at least three years, as the number was too small. Thus more recent sales had to be used and, for that reason, data on potential economic viability could not be obtained. However, this sample of twelve newly privatized firms covers a wider geographic area and more diverse types of enterprise than the 1996 study. Each firm has a special history and these are of interest in further understanding the manner in which parastatals originated and were operated.

The 1997 study

The 1997 research sample contains three hotels, one large textile firm, a large electrical component firm manufacturing transformers, a light-fixture enterprise, a bank, a pig farm, a fibreboard manufacturing firm, the state travel agency, a large aluminium and steel roofing manufacturing plant, and a pharmaceutical firm. Samples were chosen on the basis of privatization before October, 1997, with location (for transport and cost reasons) in the approximate areas of Dar es Salaam, Morogoro, and Arusha, and within the time constraint available. Each of the firms visited will be described, together with a little economic history of each. When available, impressions of potential economic viability will be made by the senior author. In order to provide some confidentiality. It should also be pointed out that when the original firms were nationalized, sometimes some shares were reserved for the owners. When privatization was initiated, those owners had first choice to repurchase.

(A)New Africa Hotel, Dar

The New Africa Hotel has a long history in the capital of Dar es Salaam--a hotel which goes back almost to colonial days, with many revisions over the years. Original negotiations for privatization were initiated in 1990 before PSRC was formed (in 1992); these original negotiations were with personnel in the ministries and with TTC (Tanzania Tourist Corporation-a corporation formed to provide tourist hotels and other services). The manager, an expatriate, has been with the hotel for five years; he has managed hotels around the world including spending 27 years with Holiday Inns Inc. He holds an MBA from a South African university with additional

training at Cornell University.

Ownership and capital acquisition: The hotel as a parastatal was also called the New Africa Hotel. It was privatized in 1993 as a joint venture between the Government of Tanzania (GoT) with 22% and, according to PSRC (1997), Tadema Overseas Ltd. of Switzerland with 78%. The manager reports that the current owners are Canadian businessmen, all former Asian Tanzanians, with diversified enterprises including trucking, chemicals, and oxygen in Malawi and Zambia as well as Tanzania plus hotels in the USA. At present the hotel is undergoing substantial reconstruction and enlargement. The new owners paid \$1.5 million directly to the World Bank to reduce the debt, \$ 1 million for outstanding debts for water, electricity, telephone and taxes and an additional Tsh. 100 million for other debts outstanding. The shareholders have also invested \$17.5 million since 1994 in hotel renovations and reconstruction, \$3 million in staff remuneration and training and \$.5 million in operating expenses over the three years. The cost of the hotel plus the investment in capital equipment (reconstruction) was supplied by the shareholders. The source of operating capital was from local banks in terms of short term loans.

The current owners took over in October, 1993 at which time the unpaid but not terminated employees staged a sit-in strike, completely stopping construction. The management terminated the employees, renumerated them, and left the hotel closed for 18 months in order to continue the renovation and extension. The hotel reopened in May, 1997 with 175 rooms finished and an occupancy rate of 97% for 1997.

Employment: When the present manager took over in 1993 there were 510 employees. Current employment is 360 of which most are new employees trained by TTC but paid by the new owners and on the job. Employees are described as needing extensive supervision.

Source of non-labor inputs: The management estimates that 60% of non-labor inputs are domestic; most of the food--fish, chicken, eggs, beef and vegetables, orange juice, etc. are of domestic origin. The imported items consisted mostly of bacon, salami, liquor and spirits, wine, computers, cash registers, etc.

Could more domestic inputs be used? Yes, says the manager, and the percentage is increasing. But the present tax system which has a separate sales tax on each juice, flour, meat, fish, chicken, etc. precludes using some domestic items. For example, the manager was going to set up a juice bar, much like the coffee bars in the US, and have different Tanzanian juices available in the coffee shop. But having to calculate a separate tax on each of the juices used was too much of a hassle. Each of the managers of privatized firms complained about the tax system and its administration.

Problems: There were lots of problems reported by management--the long negotiations with the government, the employee sit in, unpaid bills to other parastatals like water, electricity and telephone that kept cropping up, port delays, port documents said "lost" at the port until a bribe appeared, extensive paper work to satisfy the government, and the depressed economy which

does not attract as many business persons to Tanzania as when the economy was more vibrant.

Potential economic viability: There are no estimates of revenue and expenses as the hotel has been operating only since May, 1997. However, the manager expects that it is going to be economically viable, otherwise the shareholders would not have invested so much time and money in it. He expects economic conditions to improve slowly but he states, "The socialist culture is all through the system and until it disappears, things will be difficult". Given the current good reputation of the reconditioned parts of the hotel, the restaurant, and the casino, it would appear to be a very viable enterprise.

(B) New Savoy Hotel, Morogoro

The former New Savoy Hotel in Morogoro, like (A) above is also a very old hotel which needs renovating but there the similarity ends. Since taking over the hotel in 1996 some renovation and repainting has been done but none of this is major; only 21 rooms are ready for occupancy and their average occupancy rate is 20%. The new company owners expect to conduct tours as well as operate the hotel. The tour operation has not started to date.

Ownership and management: The former New Savoy Hotel was purchased by five local Tanzanians in 1995 for \$175,000, half of which has been paid, the balance to be paid in instalments. The Board of Directors are trying to find loans to cover additional renovation; operating expenses are being met out of current revenue. The manager is the same person who managed the parastatal hotel for 10 years.

Employment: There were 25 employees in 1994 when the hotel was a parastatal; there are currently 12 full time and 3 part-time employees. All 25 employees were remunerated by the government; 25% of the old employees were retained and 75% are new. The new employees were trained before they were hired; the manager reports them as good workers.

Source of non-labor inputs: The manager estimates that 90% of non-labor inputs are domestic with 10% imported. The imported inputs are mostly liquor and other beverages.

Problems: The rundown appearance of the hotel, the competition in the city, the fact that management is trying to hire the cheapest employees to reduce costs, the depressed economy, and lack of capital do not bode well for the future of this hotel.

Estimate of economic viability: Although the manager states that revenues, while not covering mortgage payments in the last year covered all other costs, he estimates that the hotel is and will be economically viable. During the negotiation process two new hotels have been built in Morogoro, one close to the former New Savoy and most of the hotels are in better condition than the former New Savoy. Also the depressed economy exerts a further constraint on viability. The senior author would question the economic viability of this hotel. The main tourist attractions are 8 hours drive north by car, which does not appear promising.

(C)New Safari Hotel, Arusha

The former New Safari Hotel in Arusha is also an old hotel on the main business street with 60 rooms and some conference facilities but is in a very run down condition. Seventy-five percent of it was owned by the GoT through the THC (Tanzania Hotel Corporation) and 25% by a private company--Grand Hotels of Canada.

Ownership and management: The 75% owned by GoT has been purchased by the Evangelical Lutheran Church of Tanzania, a major denomination in the country, which hopes to purchase the remaining 25% later. The Lutheran church has a large facility across the street with their offices and a hostel for members coming in for meetings and conferences. The church officers plan to operate the New Safari as a hotel which can also be used for church and other conferences. The church plans significant modernization and renovation. The cost of the GoT's share of the hotel was Tsh. 400 million (\$666,666). The sale had just been completed in October, 1997. Renovation costs are not known.

The present manager is continuing in the short run; a new manager will be chosen by the new corporation. The present manager is an indigenous Tanzanian who has been the manager for 5 years. He has a BA from the University of Dar es Salam in administration and has been in hotel administration since graduating in 1986.

The manager reported current annual revenue of the hotel at Tsh. 20 to 30 million with expenses Tsh. 50 million more than revenue. The difference was made up by annual negotiations with the government to offset the deficits; some of the time this was in form of an overdraft from the National Bank of Commerce (NBC). He reported these negotiations were always difficult.

Employment: The facilities include the hotel, bar, dining room and conference rooms. These employees are being terminated and will be reimbursed by the new owners. It is not known how many of the current employees will be rehired. The manager describes the employees as fair; they were trained at the government Hotel Training Institute funded by the International Labour Office (ILO) and the United Nations Development Program (UNDP).

Source of non-labor inputs: The manager reports all non-labor inputs were domestic. Some of them might have been imported originally but all are purchased locally.

Major problems: The manager appreciated that questions were asked about their major problems. He said management was so controlled by the government that it could not make decisions quickly, especially regarding employees. He thought privatization would allow decisions to be made much more quickly so that the hotel would be economically viable. He said that the age and deterioration of the hotel and its furnishings and its lack of modern office equipment, etc. contributed to the annual deficits.

Potential economic viability: The manager thinks that with renovation of the hotel and its

furnishings it will be viable. He estimates only 40 of the 80 employees are needed but GoT policy made them keep 80. The hotel is located in Arusha, a major tourist area, and although competition has increased substantially, there is still a good market for medium priced hotels. With renovation and good management, it would appear that the hotel will be viable.

(D)Aluminium Africa

The former Aluminium Africa is a large company which was operating in Tanzania and other sub-saharan African countries before nationalization. At the time of nationalization in 1973 Aluminium Africa was a family held corporation; the family was allowed to keep 37.5% of the shares and managed the nationalized company until August, 1988 when the government took over. By 1997 the company was not operating and the buildings were in bad conditon. In this intervening period the family was paid dividends when earned. Negotiations for purchase took 4 years, culminating in May, 1997. The firm is engaged in producing aluminium roofing sheets, galvanized iron sheeting, galvanized and non-galvanized pipe, cold rolled steel, etc. The buildings and site are large and extensive.

Ownership and management: The new owners are primarily members of the same family who have been in Africa for more than three generations. The current owner companies are English Finance and Development and Clovis Co. Ltd. - investment companies which are Bermuda based. Eighteen of the shareholders are descendants of the original family, others are from Kenya, the UK, Switzerland, Singapore and Canada. The investment companies have operations in 37 countries. This investment company owns 60% of the former Aluminium Africa and GoT 40%. The present owners have the right to dilute government ownership 10% and then shares can be sold to anyone (once the stock market begins operation). The owners paid \$3.06 million directly to GoT plus debts for electricity, water, telephone, etc.of \$19-\$20 million and a commitment to invest over \$22 million in the company in the next 5 years. \$11million has also been invested in operating capital. The capital was paid by the Bermuda investment companies as was \$4 million of the operating capital; the balance of the operating capital (\$7 million) was obtained from an overdraft from NBC.

The general manager and financial controller are Asian Tanzanians; the general manager is a civil engineer with a good deal of experience in their other operations.

The management had the company operating within 6 months of taking over and producing 2,500 tons of steel roofing. Of course the ownership of similar companies in Kenya and other African countries enabled management to obtain supplies quickly and the expertise of the management allowed quick recovery of operations.

Employment: When taken over the company had 1,400 employees; these have been reduced to 700 with renumeration and back wages paid by the new company. The 700 employees were former employees who are described by management as average for Tanzania but low by Kenyan standards. Most of these former employees are being further trained on the job; some have been

sent to Kenya for training. These former employees were supplemented by 6 expatriate management staff.

Production and sales: All sales are domestic with 5% retail and 95% wholesale. Currently D Co. can produce enough to provide 65% of the domestic market.

Source of non-labor inputs: Both the steel and aluminium are imported; the manager estimated that 80% of the non-labor inputs are imported. In his judgment, that percentage cannot be reduced currently.

Problems: There were many problems in getting the company into operation again--the past liabilities which had to be settled with the banks and other creditors, negotiations for a business license, the long time for sale negotiations to be completed, etc.

Potential economic viability: The management considers that Aluminium Africa will be economically viable, otherwise they would not have invested so much capital in it to get it operating again. The manager said it will be covering all expenses by the end of one year; in his words "The company is crawling now but by the end of 1998 it will be running." The management has no doubts about the future success of the company as they are so familiar with East African and world markets; they can obtain supplies quickly. The company does not have competition within Tanzania except for imports.

(E)CRDB (1996)

The former CRDB (Cooperative and Rural Development Bank), established originally as TRDB (Tanzania Rural Development Bank) to serve rural Tanzanians--smallholder farmers, state farms, cooperatives, etc.--was privatized in 1996. At the time of privatization when TRDB/CRDB was approximately 25 years old, CRDB had a negative net worth due to its massive debts. This is not a joint venture with the GoT but the GoT put in Tsh. 27 billion (\$46 million) to settle the debts. The bank is now a multiple shareholder company, the shareholders being private individuals, cooperatives, private companies, and Danida which holds 30% of the shares. [Danida is the aid arm of the Government of Denmark.] Danida expects to sell its shares later but will continue to advise the management. The new shareholders put up Tsh. 2.1 billion (\$3.5 million) with each share being Tsh. 10,000 or \$17 (at current exchange rates). With the enterprise came houses, vehicles, offices, etc.; some of these were in poor condition. Other capital investment came from selling existing assets (staff housing, and unnecessary vehicles) as well as from Danida. Operating capital has come from the sale of assets and interest on Treasury bills.

The objectives of the new company are the same as the former one--mobilizing deposits and making loans, except now the focus is wider than rural Tanzanians. The new bank is now competing directly with NBC and other new banks. Loans must be made to legal entities, individuals, businesses, and to some local governments and cooperatives. Farmers and small businesses must have enough security to cover the loan. This means that smallholder farmers and

many small businesses cannot borrow from the new CRDB as the land is owned by the community or the state and the values of their homes would not meet requirements. The new company is also severely constrained by the Bank of Tanzania, the central bank, in the amount of loans that can be made in the short run in order to implement government policy regarding interest rates and inflation. The new bank can lend to persons/agencies which do not have legal status if the funds come from donors. In the past donors have provided funds for micro projects, especially those for women.

Ownership and management: As mentioned above, CRDB (1996) is a multiple shareholder company owned by the shareholders of which Danida holds 30%. There is a Board of Directors of whom 7 are elected by the shareholders and 3 by Danida. Each person who wishes to become a director must apply and be accepted or rejected by vote of the shareholders. The current managing director is an accountant who worked for CRDB for 5 years. At the time of privatization all employees were terminated (including the Board of Directors and Managing Director) and each one interviewed to select the new employees. In 1964 the old CRDB had 1,600 employees, at the time of divestiture (1995/6) there were 700 of the former employees in the new CRDB; now there are 500. Terminated employees were paid 14 months' salary, transport to their home villages, and benefits from the pension fund, some of which they had contributed. This remuneration was paid by the new company.

Significant training of employees has been done within the new company, at the NBC training center, and in Denmark (for top management). In addition each unit manager trains his/her employees each morning for a brief period. This enables employees to correct mistakes quickly.

The new company did not have enough revenue to cover expenses during the months of operation in 1996 but did from January to June, 1997 with income of Tsh. 51 billion (\$8.5 million) and expenditures of Tsh. 42 billion (\$7 million). This gross profit of \$7 million did not include depreciation, which will be included at the end of the year.

The new bank currently has 22 branches, one in each region except two and four in Dar es Salaam. It also has 5 agencies which accept deposits while loans are made through a parent branch. Agencies have small buildings but computers, communication equipment, etc. are in the parent branch. The management would like to expand branches to serve more of the rural population but cannot until the new bank has more of a profitable surplus. The former CRDB tried mobile banking in rural areas but found it too expensive as 4 men had to accompany each vehicle to prevent robberies and the vehicles were very expensive to operate.

Source of non-labor inputs: The manager estimates that 100% of non-labor inputs are domestic; that estimate may be high but computers and other new equipment were funded by Danida as subordinated capital which does not have to be repaid. Some of the inputs are probably purchased domestically but originally imported.

firm had sales of \$15million and a profit of \$2 million with 60% of output exported. All sales are to power facilities in East Africa.

Source of non-labor inputs: The manager estimates than only 5% of non-labor inputs are domestic; 95% are not available in the country. The company has imports filling two ship containers a week coming into the Dar es Salaam port.

Problems: Imports have to be inspected before shipping and the GoT does not have sufficient manpower to do this, causing delays. Delays also are common at the Dar port, with papers lost which reappear only when bribes are paid. The manager also complained that taxation officials come the plant frequently with estimated taxes much higher than shown on the company books. It also is difficult to fire employees.

Potential economic viability: The manager believes the company will be profitable but he says risks are high in Tanzania. The company has been rehabilitated and made viable in a short time--two years. It is anticipated that that viability will continue, especially since 60% of production is exported.

(G)Light Source Manufacturing Co.

In great contrast to (F) above is the former Light Source Manufacturing Company, which manufactured electrical lights (bulbs and florescent tubes) in Dar es Salaam and was privatized in 1995, after being closed for two years. The plant is still not in production. The new company is a joint venture between TATA Holdings (51%) and GoT (49%). The new firm is Asian owned and the manager is an Asian expatriate who has worked in other TATA Holdings in Tanzania for the last 4 years. The new owners paid Tsh. 231 million (almost \$385,000 at current exchange rates). The company has not nvested in capital equipment but has spent Tsh. 218 million (\$360,000) in operating capital, all of which came from TATA Holdings.

Employment: The 70 employees remaining in 1995 have been reduced to 15 currently. The employees which were not retained were remunerated by the company. All of the present employees were retained; the manager reports their quallity as fair, that they have no industrial background, as the parastatal never worked properly.

Production: The new company had some production in 1996 but sales did not cover expenditures. Almost all the inputs (80%) are imported--the tungsten, glass shells, and aluminium caps, etc. Management complains that imported electric light bulbs and florescent tubes come in illegally duty free and his company cannot compete. He claims his company is audited (since it is part government) and the others are not; he further claims that many countries subsidize their exports, adding to his competition problems. Employees were trained on the job. Sales, when the plant was in production, were 90% to wholesalers and 10% to retailers.

Source of non-labor inputs: The manager estimates that 20% of his non-labor inputs are

domestic and 80% imported. The domestic inputs are primarily gas, electricity and packaging; imported inputs are the glass shells, tungsten wire, and aluminum caps. He estimates that domestic inputs cannot be expanded at this time.

Problems: The manager sees many problems--the fact that he believes much of his competition comes from firms importing electric lights and florescent tubes duty free illegally, that his firm is audited as the government has a share and other firms are not, that workers are not trained for industrial work and the economy is very depressed. However, he does admit that a market for his products exists if they could produce more economically.

Potential economic viability: The manager is discouraged and does not see his firm becoming economically viable unless the tax situation changes. In the meantime no production is being undertaken. Part of the building is being rented to bring in additional income. Due to the losses in 1996 and the fact that no production was being undertaken in 1997, it would appear that the firm may have been purchased for its location or the new owners did not do their homework before purchase, as it does not seem to show potential for economic viability in light manufacturing. Since TATA Holdings has other enterprises in Tanzania, this firm may have been purchased to supplement their other interests.

(H) Keko Pharmaceuticals

The former Keko Pharmaceuticals was a large pharmaceutical firm manufacturing, importing, and exporting medical equipment, pharmaceuticals, and veterinary products. It was purchased in February, 1997 by a very energetic husband and wife team of indigenous Tanzanians as a joint venture between their partnership, which owns 60%, and GoT, with 40%. The new owners have other pharmaceutical interests; they are doing the management currently but plan to hire a manager later. Production is currently 100% domestic; they hope to export 25% in the future.

The new owners paid \$750,000 and assumed liabilities of Tsh. 1.4 billion (\$2.3 million) for debts on machinery, equipment, and other items. They also invested \$500,000 in new capital equipment and \$1.5 million in operating capital. All of this capital came from their other operations. The MOU (memorandum of understanding) was signed in May, 1995, but cabinet approval did not come until December, 1996 and the sale agreement was signed in February, 1997.

Employment: The pharmaceutical firm had 112 employees drawing salary but not working when the new owners took over in 1997; all but 15 have been terminated and remunerated by the company. Most of the former workers retained were primary school leavers who had been trained on the job; the new owners describes them as good workers but with no discipline of work and with low educational levels.

Production: When the new firm is brought into production, it is planned that it will be the

producing arm and their other company, Diocare, will do the marketing and procurement. They anticipate selling 50% to wholesalers and 50% to retailers. There is a good market for pharmaceuticals and significant competition. The new firm was not in production in 1997.

Source of non-labor inputs: It is estimated that 30% of non-labor inputs will be domestic and 70% imported. It is hoped that the imported packaging materials can become domestically produced.

Problems: The long delay between the time the new owners signed the MOU and the signing of the sales agreement meant that they could not get the plant into operation quickly until the sales agreement was signed; there were also problems of renovating equipment, etc.

Possibility of economic viability: Since these energetic young people are already operating a pharmaceutical company profitably and since the two companies will be integrated, it appears the new Keko company will be economically viable. This young couple is very impressive.

(I)Moshi Pig Farm

Another parastatal sold to an indigenous Tanzanian *and the first one in our samples sold to a female*, was a pig farm near Moshi. This pig farm was sold in 1995; the farm had 20 hectares of good land and a concrete block building to house the pigs. When the farm was purchased by the female owner, the pigs had all been sold but the building and land were in good condition. The owner has an adjacent farm and dairy enterprise not too far from the pig farm which was purchased. The owner was not at home the day of our visit; our information came from employees who had been with her for nine years.

The new owner had been a secondary school principal in a public school thought to be one of the best in the area. She became concerned about teenaged girls who were thrown out of the school when they became pregnant. Of course, a similar fate did not befall the boys responsible! The new owner of the pig farm (Mama Clem as she is affectionately called) resigned her position and started a school for pregnant teenaged girls. She built a dormitory to house the girls and uses the land on the former pig farm to grow maize and vegetables for their food; she also has some dairy cattle housed on the farm which provide milk for the school. Mama Clem has also established a private secondary school with teaching in the English medium for domestic and international students. Profits from this school and the farm help to fund the school for the formerly pregnant teenagers.

It was not possible to ascertain the purchase price of the pig farm or of additional investments which she has made. Since the two farm enterprises are integrated, it would seem very difficult to ascertain the profit situation for only one of the farms. It is obvious from our visit that the farm is economically viable and making a substantial contribution to girls in the region.

(J)State Travel Services

The former State Travel Services provided travel facilities in major cities of Tanzania over when a parastatal. The new owners, expatriate Asians, took over in Sept. 1997. The new owners' company is registered in Mauritius but has offices in other African countries. The new company plans the same type of services as the parastatal--travel agency and tours. The head office is in Arusha, a good location for the tour business. This is a joint venture between the Mauritius located parent company, which owns 75% and the GoT, which owns 25%. The previous manager, an Asian Tanzanian, is still managing the new company but expects to be replaced shortly.

The cost to the Mauritius company was Tsh. 250 million (\$417,000).. which was provided by the parent company; the GoT took over all debts for its 25%. There were considerable buildings and vehicles included. The operating capital has been coming from within the business during this short time of operation (two months). No new investment has been made in capital equipment to date but it is recognized that the travel and tour service needs more updated computers and vehicles.

Employment: There were 150 employees in 1996 but this number had been reduced to 60 at the time of take over. The retrenched employees were remunerated by the government. Former employees were trained at the university, some overseas, and some in house. It is not known how many of the present employees will remain.

Production: The former State Travel Services had expenditures of Tsh. 907 million in 1996 and income of Tsh 726 million; the figures for 1995 were expenditures of Tsh.702 million and income of Tsh.714 million. Thus the deficit in annual operations in 1996 was Tsh. 181 million (\$302,000) with a profit of Tsh. 12 million (\$20,000) in 1995. Data were not available for earlier years.

Source of non-labor inputs: The manager estimated that 75% of non-labor inputs were domestic and 25% imported; the imported items were largely vehicles, computers, etc. Some of the domestic items may have been imported initially but were purchased locally.

Problems: The manager reported that government bureaucracy resulted in delays in decision making and delays in the sale of the firm to the present owners. The manager also mentioned corruption in the sale of former parastatals and delays by ministerial committees. The manager confirmed that all decisions must be made in committees so no one person is blamed for poor decisions! He also reported that their company lost business in November and December when the sale was announced, as it was not known how the new company would operate.

Potential economic viability: There is no basis on which to judge future economic viability. The present manager stated that the new owners are emphasizing efficiency in operating the business and promptness in answering faxes in response to enquiries, that vehicles must be of good quality and in good repair with mineral water in the van, drivers must be smartly dressed and know some foreign languages other than English, and speak English well. So changes will be made and economic viability is possible; the safari business is very competitive now.

(K) Friendship Textile Mill

The former Friendship Textile Mill in Dar es Salaam was a very large mill built and equipped by the Government of China about the same time as the TAZARA railroad was built from Tanzania to Zambia. The Chinese also constructed blocks of apartments to house the workers at the mill. The mill operated until it was closed in late 1995/ early 1996; a large part of the loan from the Chinese government still had not been repaid. Although the mill had been closed, the workers had not been paid off.

The new ownership is a joint venture between the GoT (49%) and a Chinese government firm, which owns 51%. The GoT has taken over liability for all the debts for its 49% interest. The new Chinese firm has paid GoT \$16 million for the enterprise, has invested \$15 million in capital equipment, and \$12 million in operating capital to get the mill operational. The mill was rehabilitated quickly and was in production by May, 1997. There is a Chinese general manager and a Tanzanian general manager. The latter has a BA from the University of Dar es Salaam, a diploma in textile milling from the Netherlands, and in textile marketing from Finland. He managed one of the other textile mills in Tanzania formerly, one that has also been closed. He appears very capable.

Employment: The parastatal had up to 5,000 workers at one time but had 2,883 in 1995. Currently there are 1,945 employees. Terminated workers were reimbursed by the GoT. The Tanzanian manager describes the quality of the rehired workers as good; a few may be sent abroad for further training.

Production: The former parastatal operated on and off in 1996. The new company started production rapidly; it is now (November, 1997) operating at 50% capacity and the level of operation is increasing. As did the parastatal, the new enterprise is producing cotton yarn and printed fabrics from locally produced cotton; spinning, weaving, printing and other processes are used as in the former parastatal. All production is sold through wholesalers.

Potential economic viability: It takes time to renovate equipment and import new equipment, getting imports from the port, etc. But management is very upbeat about the future potential of the firm; the Tanzanian manager says that the firm has been breaking even in the last three months. He believes that it has a sound future if the GoT can keep textiles from coming in duty free illegally. The customs department stated that last year no textiles were imported but they are in all the shops. When they come in through Zanzibar they are allowed into Zanzibar essentially duty free and then are not coded as imports at Dar port! Many managers complained of this.

This management has done a good job in rehabilitating the textile mill; economic viability is largely a government problem as well as a management problem as the government has to control and police the imports. It would appear to be becoming economically viable. One of the interesting factors noted was that Tanzanian women are now wearing more traditional dresses than they were a couple of years ago; the authors were told that women want materials of lower

quality so they can purchase more dress material of different colors on a given income.

Source of non-labor inputs: The manager estimates that in addition to capital equipment 15% of non-labor inputs are imported. These are primarily dyes and other chemicals which are not manufactured in Tanzania.

Problems: The new managers have rehabilitated the mill quickly, even though they are working with two governments and a company within one. The major complaints were the competition with imports which were coming in duty free.

(L) Fibreboard Africa

The last parastatal is Fibreboard Africa located in the Arusha area. The memorandum of understanding has been signed for the sale of this enterprise, cabinet has approved the sale, but the final sales agreement has not been signed. Signing is expected daily. Even though the final sales agreement has not been signed, the company will be described and included in this list.

Ownership and management: Agreement has been reached to sell the former Fibreboard Africa to a third generation Asian Tanzanian who already operates hardware stores and wheat and bean farms in the Arusha area. The plant was closed in March, 1997 at which time it was operating at 15% capacity with 400 employees. The MOU was signed in March and employees terminated with GoT paying the remuneration. The Fibreboard Africa enterprise was engaged in tree cutting, logging, sawmill operations and production of fibreboard and impregnated electrical poles and manufactures some furniture. The enterprise also sold some lumber. The lumber comes from forestry resources of pine, cypress, and eucalyptus trees owned by the government. Currently Fibreboard Africa and private individuals are cutting trees in this forestry area but the private individuals are cutting illegally and not making any payments; no one is undertaking replanting of trees. The new owners will be responsible for replanting the area which they cut so that the forest will be permanent, as the trees grow to cutting size within 5 years. However, the new owners insist in the MOU that they have access to the forestry area on that basis. They will do their own cutting, transporting, delivering, etc. of their products.

The new owner paid Tsh. 700 million (\$1.1 million approximately) and a comparable amount to settle liabilities against the parastatal. He expects to invest Tsh. 2 million in renovation and new capital equipment in the next 5 years. The plant will not reopen until the sales agreement is signed.

Employment: The new owner will rehire 140 of the 400 original workers.

Potential economic viability: The potential economic viability of the new company appears excellent, given the experience and financial ability of the owner.

Some Additional Private Enterprises in the Arusha Area

There are many private enterprises in the Arusha area; several are mentioned due to their significance. There was a large parastatal dairy which has been closed; it was built by a donor, the size said to be much too large for the milk capacity in the area. After consideration of private purchase, several interested parties rejected it because of its size and deterioration of the plant and equipment. However, a small private dairy was opened by a former NGO volunteer (an expatriate) and a Tanzanian national. This private dairy purchases milk from the surrounding area, including several women's groups (some of which have 70 members). The milk is sold locally to hotels, restaurants, and some to the 7 small milk kiosks which have been established by private individuals in the city. Both pasturized milk and yogurt is sold; the owners cannot compete with the price of cheese and butter which comes in from Kenya. This is a very humble dairy; the owners are covering costs and waiting to see what happens to the parastatal dairy before enlarging their operation. One other major concern is the competition from Kenya as Kenya milk prices to producers are much lower than Tanzania prices, which are still controlled.

Another interesting development during the last five years is the formation of private companies to grow fresh flowers for shipment to the European market, especially in the winter in Europe. At least three such enterprises have been developed; two were producing only roses, the other a greater variety of flowers. The roses are grown in five different colors. All roses are being grown in buildings with glass or plastic roofs. The farm visited was packaging roses in differing lengths, in packages of 20 roses each, with heads put into a protective cardboard covering and leaves removed from stems before being airlifted to Europe. The manager of the firm visited stated that most of their roses went to a flower auction in the Netherlands.

It is obvious that the capital investment is substantial; it is not an enterprise which could be developed by smallholder farmers. Some 300 people were employed on the rose farm visited.

Other private individuals are growing flower seeds for export to Europe. These are being grown under contract by smallholder farmers in the Kilimanjaro district. Bean seeds are also being grown under contract with smallholder farmers in the area. Inputs are supplied on credit on the understanding that the beans will be sold to that firm at harvest. Of course, this does not always happen. Extension services are also supplied these growers.

As a result of the flowers and beans, these non-traditional exports now exceed coffee exports in Tanzania.

Analysis of replacement of parastatals by private firms

What are some of the major effects of these sales of parastatals to private or private plus government enterprises? Our data are insufficient to analyze all of these but some of the major ones are readily apparent.

(a) Ownership- -the change in ownership means that others than government now are responsible for new capital requirements, employee payments, tax liability, and general management of these

companies. Government subsidies are no longer payable; thus the government deficit for parastatals will be substantially reduced and revenue from corporate taxes increased. In addition substantial sums have been paid GoT for the new enterprises. A PSRC report states that the sale of 40 companies during the period July 1996 to June 1997" brought \$85.9 million in immediate divestiture proceeds and a further \$113.1 million in investment commitments"(PSRC. 1997.p.13).

(b) Form of sale--Seventy-five percent (9 out of a sample of 12) of these firms were joint ventures with GoT, the government generally taking over part of the debt as its share in the new company. One of the other parastatals (8%) was sold as a joint venture with a donor, one was sold (8%) to a multiple partnership of five Tanzanians and one (9%) to a private individual. Thus the largest percentage of sales were joint ventures with the GoT.

(c) Nationality of purchasers--Fifty percent of this sample of parastatals (6 out of 12) were sold to expatriate firms, four are primarily Asian controlled and two are multinationals with head offices in Europe. Five others (42%) were sold to indigenous Tanzanians and one (8%) to an Asian Tanzanian.

(d) Management--Of the firms sampled, a much higher percentage of the managers of this sample are indigenous Tanzanians than in our 1996 sample. In the 1997 sample 5 out of 12 (42%) of the managers were indigenous Tanzanians, 4 (33%) were expatriate, 2 were Asians (17%) and one was joint expatriate/Tanzanian (8%). In terms of current development thinking, the employment of a higher percentage of indigenous Tanzanians managers benefits the economy, assuming they have similar management skills. The hiring of Tanzanians sends a positive message to young people that management positions will be open to them in the future.

(e) Employment--It is obvious that employment has been reduced substantially, as the parastatal managers employed excessive numbers of employees on the advice of government. In the current sample, overall employment was reduced from 7,485 for the most recent period the parastatals were operating to 3,972 currently. This is a reduction of 47% or 53% of former employees were rehired. A small percentage of the new employees were accountants and computer specialists and others with higher levels of training. Managers reported that almost all employees were receiving additional training in the new companies.

(f) Domestic non-labor inputs--The managers' estimates of the percentage of domestic non-labor inputs averaged 69.5%. These estimates may be high as managers often counted all goods purchased in Tanzania as domestically produced; some of these may have had parts imported. In any event, this was a new question for them and in general, they were not optimistic of increasing the use of domestic inputs in the short run as the managers did not believe most of their imports were produced domestically.

(g) Potential economic viability--The senior author's assessment of potential economic viability is based on impressions rather than hard data due to the short time the firms had been operating. Her assessment is that 7 of the firms have good potential (58%), 3 have fair potential (25%), and

2 have poor potential (17%). If the firms with good and fair potential have been judged correctly, 83% of the firms in the sample will survive and do well while 17% will limp along or go bankrupt. This is a very positive outlook. Three of the firms estimated to have good potential are the international firms with good markets and management. However, another three of the sample estimated to have good potential for economic viability were indigenous Tanzanian owned and managed and one was owned by an Asian Tanzanian.

(h) Problems--The problems raised by management were similar to ones emphasized last year; the first being the long delays in finalizing purchase with PSRC, the cabinet, and the final sales agreement. The second most important problem raised was that of tax administration policy, especially of tax enforcement and the illegal duty free imports which made it difficult for domestic production to compete. The behavior of the tax enforcement personnel is very trying and is certainly not the intention of, or instructions from, the new Tanzania Revenue Authority that are being following. Other problems frequently noted were unpaid bills of former parastatals which kept cropping up, port delays, corruption, the depressed state of the economy, scarce capital of the banks, depreciated buildings and capital equipment, the slow pace of government bureaucracy, and workers lacking the discipline of work.

Table 1: Number of Tanzanian Parastatals Divested by mid - 1997 by Divestiture Type

Divestiture Type	1992	1993	1994	1995/96	1996/97	Total
Sale of shares or assets	5	18	11	24	25	83
Liquidation	0	16	17	9	11	53
Closure	4	5	1	3	1	14
Lease	2	8	5	7	2	24
Placed under LART	0	11	9	0	0	20
PCs and Mgt. Contracts	0	1	2	0	2	5
Total	11	59	45	43	41	199

Source: PSRC, 1997, p. 13

Table 2: Disposition of Tanzanian SOEs as of June 30, 1996 and at June 30, 1997

	To June 30, 1996	June, 96 – June, 97	June 30, 1997
Sales of shares or assets	<u>1996</u>	<u>1997</u>	<u>Total</u>
To major multinationals	9	3	12
To other foreign firms	8	4	12
To indigenous buyers	21	2	25
To other local buyers	17	4	19
Unknown	3	12	15
Sub-total	58	25	83
Liquidations	42	11	53
Liquidations under LART	20	0	20
Closures	13	1	14
Sub-total	75	12	87
Leases	23	1	24
Performance management contract	3	2	5
Sub-total	26	3	29
Total	159	40	199

Source: Moshi, 1996, PSRC, 1997, p. 13 and Due and Temu, 1998.

Table 3: Summary of Ownership, Management, Company Organization and Potential Economic Viability of 12 Newly Privatized Firms In Tanzania, 1997.

Enterprise	Majority Ownership	Management nationality	Type of Company organization	Potential Economic Viability***
New Africa Hotel	Multinational	Expatriate	Joint venture	Good
New Savoy Hotel	Tanzanian I*	Tanzanian I	Private sale	Poor
New Safari Hotel	Tanzanian I	Tanzanian I	Joint venture	Fair
Aluminum Africa	Multinational	Expatriate	Joint venture	Good
CRDB (1996)	Tanzanian I	Tanzanian I	Joint venture	Fair
ABB	Multinational	Expatriate	Joint venture	Good
Light Source manufacturing	Multinational	Expatriate	Joint venture	Poor
Keko Pharmaceutical	Tanzanian I	Tanzanian I	Joint venture	Good
Moshi pig farm	Tanzanian I	Tanzanian I	Private sale	Good
Friendship textile	Foreign – China	Tanzania/China	Joint venture	Good
State Travel	Multinational	Tanzanian I	Joint venture	Unknown
Fiberboard Africa	Tanzanian A**	Tanzanian A	Private sale	Good

Source: Due and Temu, 1997.

* Tanzanian I is an indigenous Tanzanian

** Tanzania A is a Tanzanian of Asian origin

*** Potential economic viability is estimated by the senior author after visiting the firms and talking to the owners/managers