

MANAGING CHANGE IN TANZANIA PUBLIC ENTERPRISES: SWALLOWING BITTER PILLS

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ABSTRACT

The article addresses itself to the whole exercise of parastatal privatization. In essence it argues that before enterprises being privatized, they played a major role in the economy of Tanzania. Reasons advanced as to why parastatals were formed include: private sector failed to meet public demand; where private sector failed to invest in areas considered to be risky and other reasons. Privatization is seen as an external force hinging on the parastatals' failure to operate economically and consuming a large share of public funds. In conclusion, problems are cited as to why privatization exercise is yet to be an exemplary undertaking, and some future benefits are highlighted.

Introduction

There are many issues about privatisation than there are answers. It will depend on who is concerned and from which angle one looks at the whole exercise of privatisation. Some people will joyously shout that privatisation is indeed the blood stream of running any business. And these people will be termed capitalist. Others will speak of socialism but forgetting that the vestiges of socialist ideology once industries are privatized are for ever gone. It is too early to pinpoint at the moment what benefits exactly the government of Tanzania will reap from the exercise of divestiture apart from releasing it from the pressure of administering business enterprises. Since the government is determined to leave no stone unturned, one would hope that all evils and benefits accruing from the exercise of privatisation must be swallowed. Tanzanians want a continuous program of educating them about the advantages and disadvantages of privatization. The authority concerned must carry out the program tirelessly.

The paper is divided into two main sections. The first part looks at business enterprises before being nationalized. Secondly, the reform and privatisation of enterprises in Tanzania.

"Private investment this takes the form of investment in our country by individuals or companies from outside. The important condition which such private investors have in mind is that the enterprise into which they put their money should bring them profit and that our Government should permit them to repatriate these profits. They also prefer to invest in a country whose policies they agree with and which will safeguard their economic interests" (Nyerere 1968: 238).

Enterprises Before Nationalization

The above quotation explains how private enterprises operate in most third world countries that do lack a capital base from which to build their own industries or enterprises or economies. By inviting other nationals to invest in another country, private investors must satisfy that they are protected legally, economically, politically and socially. It means that all these conditions were present in Tanzania before 1967. Investors were free to repatriate part of their monies (profits) back to their own countries. Every business undertaking must produce losses or profits which are then reinvested in other undertaking or are ploughed back in the same

business operation. That is usually the practice and the policies which allow external investors to bring their funds.

Unfortunately for Tanzania, unlike Kenya which was favoured by colonialists to have many enterprises, was a satellite or a recipient of goods manufactured in Kenya. Kenya was to have as many industries as possible that would satisfy consumption needs of all the three East African countries. Most of all things that Tanzania required in terms of consumer goods came from Kenya or if not found there, Tanzania had to import such goods from Britain or other European Countries. Kenya was a country of settlers. Settlers who had decided to develop Kenya industrially as their country of origin. Business enterprises boomed in Kenya than in either Uganda or Tanzania.

After independence, Tanzania had to rethink how to develop its resources which were lying idle or mistreated. One would think that policies that emerged of socialism and self-reliance later on, were a result of seeing Tanzania as a country that lacked industrial infrastructure or base. Even when we had the East African Community, the economic development of Uganda, Tanzania and Kenya followed the same pattern of having most if not all investment in Kenya. With the emergence of the Arusha Declaration in 1967, Tanzania embarked on her way of economic development.

Nationalization of all Major Means of Production

The Arusha Declaration of 1967 was a turning point in the history of Tanzania. It left no stone unturned by declaring that all major means of production and exchange, land, forests, minerals, banks, import and export trade, wholesale trade, cement, fertilizer, textile industries, insurance, news media, electricity and iron and steel industries were to be owned by peasants and workers through their government.

Compensation was paid to most owners who had their property nationalized. One can say that Tanzania was not dancing alone to this

kind of music. Many countries had done the same but at different times.

Potential investors who had put their investment in the country or were considering to do so were frightened by this policy of nationalization. Tanzanians and non-Tanzanians had to accept the situation as it was. No more investment in areas mentioned by the Arusha Declaration was forthcoming. Tanzanians who originated from Asia particularly India left the country when their buildings and other property were put under the control of the government. Workers from various enterprises were given mandate to safeguard all economic interests to their working places.

The intention of the policy was good for Tanzanians who had no say in their economic development. Tanzania had to chart her own way of development with minimum interference from outside the country. Nyerere then the President of Tanzania wrote: "Had we been able to attract investors from America and Europe to come and start all the industries and all the projects of economic development that we need in this country, could we do so without questioning ourselves? Could we agree to leave the economy of our country in the hands of foreigners who would take the profits back to their countries? Or supposing they did not insist upon taking their profits away, but decided to reinvest them in Tanzania, could we really accept this situation without asking ourselves what disadvantages our nation would suffer?" (Nyerere 1968:240)

Nationalization was crucial at that particular time when no entrepreneur was readily forthcoming or interested to enter into business areas that the government thought necessary. Kreacic (1988) in support of nationalization writes, "In the absence of other entrepreneurial sources, public enterprises played a major role in the industrialization of developing countries. The argument for total government control was valid in the early days of the public sector when human and financial resources were scarce and the number of unit which were to be controlled was small" (Kreacic 1988:267).

Reasons for Nationalization and Establishment of Public Enterprises

Socialism or Capitalism, Tanzania had no choice but to address itself to the reality. Reasons advanced by Moodley and Reddy (1994) as to why public enterprises were formed in South Africa do apply to Tanzania as well. These were:

- (1) Public enterprises were formed on a national regional and local basis basically to enable residents get essential goods and services.
- (ii) Public enterprises were established where the private sector failed to meet public demand or common citizens could not afford to pay for such services.
- (ii) Where the Private sector did not show interest in areas considered to be risky or where the return on invested capital did not attract investors.
- (iv) To avoid monopolistic tendencies that endangered public interest e.g. the distribution and production of water, electricity and gas.
- (v) For defense and military safety, the country could not afford seeing the private sector enter into such business.
- (vi) The policy of socialism and self-reliance made the country to establish as many as possible public enterprises that would cater for the nation.
- (vii) The country had to tap or reserve mineral resources, petroleum exploration etc. for strategic reasons.

While South Africa had basic industries to nationalize, Tanzania, as earlier pointed out, had few or none. Tanzania nationalized most enterprises in a hurry only to scare entrepreneurs. South Africa and other countries of comparable economies nationalized public enterprises with care.

Apart from the fore mentioned reasons, Tanzania went to extremes by nationalizing even meat shops. As industries got scattered, Members of Parliament each struggled to get a factory started or established in his/her own constituency because that would show that the incumbent Member of Parliament initiated and brought a certain factory. It was not in the interest of the government that public enterprises be scattered everywhere but it was indeed the popularity of politicians to show a sign of development. That is why some public enterprises were established even in areas where it was not economic and commercially viable.

Tanzania overstretched itself by allowing so many enterprises that at most left many of them struggling to get funds from the government coffers.

Managing public enterprises required competent and qualified manpower. But some civil servants were placed in managerial posts without regard to their qualifications. No wonder public enterprises were overstaffed particularly in the low cadre jobs. Public enterprise employed some managers who would learn the rules of the game on the job. Had Tanzania waited to get qualified manpower to man her own public enterprises, it would have taken years. Tanzania now boasts of having qualified and experienced managers.

Public enterprises gave economic life to Tanzania up to late 1970's. Lyatto writes, "The performance of parastatal sector up to mid 1970's was encouraging, output grew at an average of 5% between 1966 and 1970 and 4.8% between 1970 and 1976. Satisfactory achievements were also made in the social sector. However, beginning early 1980's the performance of the Parastatal sector became very discouraging" (Lyatto, 1995:2).

Beginning 1980's, most public enterprises in Tanzania were operating below their capacity and therefore operating at a minimum or no profit. The situation of suffering losses could be divided into several factors

namely: lack of qualified manpower, started with insufficient capital, lack of raw materials to some industries that depended on inputs from abroad, lack of foreign exchange to buy spares or new machinery, low capacity utilization, lack of water and electricity to some industries, industries located at wrong places because of political interests. Low capacity utilization has made Tanzania swallow bitter pills because the nation invested heavily in these industries and all these have turned into white elephants producing below their capacity and some even being closed. The table below shows capacity utilization in some enterprises from 1980 to 1995

Table 1: Capacity Utilization (Percentage)

| | | 1980 | 1985 | 1989 | 1990 | 1991 | 1994 | 1995 |
|----|----------------|------|------|------|------|-------|------|------|
| 1 | Textiles | 46.6 | 22.3 | 22.9 | 29.0 | 30.0 | 20.9 | 18.9 |
| 2 | Fertilizers | 38.0 | 30.9 | 24.7 | 13.0 | 15.0 | - | - |
| 3 | Leather | 40.0 | 17.7 | 8.6 | 12.0 | 14.0 | 0.03 | 7.6 |
| 4 | Cement | 22.9 | 28.5 | 44.0 | 49.0 | 48.0 | - | - |
| 5 | Cigarettes | 80.3 | 47.5 | 58.5 | 66.0 | 68.0 | 61 | 64.4 |
| 6 | Cold drinks | - | 16.0 | 29.0 | 30.0 | 17.0 | 26 | 28.9 |
| 7 | Beer | 75.0 | 59.0 | 42.0 | 35.0 | 41.0 | 27.3 | 42.3 |
| 8 | Iron | 63.0 | 38.0 | 51.0 | 33.0 | 26.0 | - | - |
| 9 | Cooking oil | - | 13.0 | 42.0 | 18.6 | 32.0 | 43.5 | 54.2 |
| 10 | Tires | - | 37.0 | 61.0 | 63.0 | 53.0 | 60.7 | 52.6 |
| 11 | Safety matches | 61.0 | 77.0 | 51.0 | 90.0 | 111.0 | 31.3 | 35.5 |

Source: Budget Speech by Hon C.D. Msuya (MP) of the Ministry of Industries and Commerce For 1994 and 1995 own calculations based on the speech by - Abdallah, O. Kigoda (MP) Minister of Industries and Commerce delivered to members of Parliament - 1996/97.

The contribution to Gross Domestic Product from industries and commerce has been very minimal as Table 2 below indicates. It has been 13 or less percent contribution to the Gross Domestic Product. If the nation is to advance, the share of industries and commerce to GDP has to be raised. In order to achieve this target Tanzania needs private investment to make her industries contribute more to the GDP and have proper capacity utilization. It is not that private industries will do miracles,

but the industrial base will be widened and therefore allow the nation gain in the form of goods produced whether exported or not, or in the form of monetary gains through taxation.

Table 2: Contribution of Industries and Commerce to the Gross Domestic Product (1970 Prices Tshs. Million)

| Year | GDP | Contribution from Industries | Contribution from Commerce | Domestic Product | |
|------|--------|------------------------------|----------------------------|------------------|------------|
| | | | | Industries % | Commerce % |
| 1976 | 21,652 | 2,811 | 2,839 | 12.98 | 13.11 |
| 1982 | 23,439 | 2,304 | 2,668 | 9.8 | 11.4 |
| 1983 | 22,882 | 2,103 | 2,612 | 9.2 | 11.4 |
| 1984 | 23,556 | 2,159 | 2,640 | 9.1 | 11.2 |
| 1985 | 24,278 | 2,075 | 2,662 | 8.6 | 11.0 |
| 1986 | 25,070 | 1,991 | 2,958 | 7.9 | 11.8 |
| 1987 | 26,345 | 2,081 | 3,112 | 7.9 | 11.8 |
| 1988 | 27,460 | 2,228 | 3,236 | 8.1 | 11.8 |
| 1989 | 28,376 | 2,399 | 3,549 | 8.4 | 12.5 |
| 1990 | 29,368 | 2,338 | 3,520 | 8.0 | 12.0 |
| 1991 | 30,484 | 2,431 | 3,662 | 8.0 | 12.0 |

Source: *Budget Speech by Hon. C.D. Msuya (MP) of the Ministry of Industries and Commerce p.44.*

Country studies indicate that instead of parastatals contributing to the nation's coffers, the companies in question are doing the reverse - asking for more and more subsidies and capital from the state. Parastatals need funds in order to be operational. They need government's subsidies and capital infusion in order to sustain them. Some of the fiscal problems experienced by the Government are due to the heavy burden carried by it in order to run these parastatals. Loans are sought from abroad so that these parastatals can improve their operational problems and thereby contribute in the form of taxation of profits to the GDP, but all these efforts are bleak. For example, the

Minister for Industries and Commerce stated that parastatals owed the Treasury a total amount of Tsh. 600, 146, 188, 939. The amount does not include loans from other sources. However, the total debt to be paid by parastatals amounted to Tsh. 1.4 trillion. Losses occurring in the parastatal companies were alarming! The figure stood at Tshs 1.023 trillion up to 30th June, 1994 [Kigoda, 1996:8-9].

Government Policy Reform and the call to Privatiser

Reform of business policy in Tanzania started in 1985 when the Government decided to liberalize

trade. Private individuals were allowed to import goods that the nation required. The liberalization policy has made the nation acquire several goods in the shortest period because people were allowed to purchase these using their foreign exchange. Other steps towards reforming the business policy include:-

- (i) Reducing the number of goods that were under the Price Commission. Prior to this exercise, most commodities were subjected to the price commission.
- (ii) Business people could now obtain licenses without bureaucracy that was there before.
- (iii) There have been incentives for people to export commodities abroad. They are allowed to retain part of the foreign exchange abroad. In addition Presidential Awards are given to people who excel in exporting goods or commodities abroad.

The measures were taken as part of the implementation of the Economic Recovery Programme (ERP) in July 1986. It aimed at increasing the economic rate of growth, improving the physical infrastructure and reducing the deficit in the nation's balance of payments. All these steps did not seem to be sufficient to get the nation's industries operate profitably. The deficit in the nation's balance of payments increased year after year. Table 3. shows these figures.

Table 3: Balance of Payments

Tanzania Trade and Other Nations US\$ Million

| Year | Exports | Imports | Balance of Payments |
|---------|---------|---------|---------------------|
| 1981/82 | 570 | 1,079 | -509 |
| 1982/83 | 369 | 902 | -533 |
| 1983/84 | 347 | 875 | -528 |
| 1984/85 | 335 | 950 | -615 |
| 1985/86 | 317 | 1,024 | -707 |
| 1986/87 | 355 | 1,155 | -800 |
| 1987/88 | 362 | 1,185 | -823 |
| 1988/89 | 393.9 | 1,277.4 | -883.5 |
| 1989/90 | 424.5 | 1,380 | -955.5 |
| 1990/91 | 393.6 | 1,381.3 | -987.7 |
| 1991/92 | 422.4 | 1,437.4 | -1,012.0 |
| 1992/93 | 600 | 1,600 | -1,000 |

Source: Budget speech by Hon C.D. Msuya (MP) of the Ministry of Commerce and Industries p.46

While in 1967 some people were castigating foreign investment, today, they have to face reality - to invite private entrepreneurs. Almost every country in the Third World including India, Latin America countries, Zambia, Malawi, Zimbabwe, Mozambique to name only a few are eager to privatize their public parastatals! Privatisation is not a cure to all our economic problems. What is required is increased productivity, hard work and innovation. But innovation and increased productivity are created under private hands or individuals who want to get the maximum out of their inputs. It is not necessary that private industries will operate profitably or do miracles, but the industrial base will be widened and increase the tax base where the government can get money for development purposes.

The governments of Tanzania and elsewhere are required to reduce or distance themselves from running businesses. Forces from the World Bank and International Monetary Fund want to see trade liberalized, free movement of profit in terms of cash whether by design or intention.

While privatisation of public enterprises under the Parastatal Sector Reform Commission (PSRC) is going on, there are good signs shown by this exercise at least in the short run. For example, the privatisation of Tanzania Breweries Ltd. (TBL) run jointly by Indo International BV and the Tanzania Government has shown good results both financially and the volume of beer production. It is reported that in 1995 the quantity of beer produced amounted to almost double that of 1991 and the profit in T.Shillings rose tremendously. See Table 4:

Table 4: Performance of TBL After Privatisation

| Year | Quantity Sold in Cases | Amount Sales in Revenue Tshs M. | Profit after Tax in Tshs.M. |
|------|------------------------|---------------------------------|-----------------------------|
| 1991 | 3,756,186 | 18,046 | 390 |
| 1992 | 3,790,153 | 22,729 | 446 |
| 1993 | 3,964,960 | 24,525 | (788) |
| 1994 | 4,437,000 | 28,256 | (993) |
| 1995 | 6,950,113 | 60,813 | 11,156 |
| 1996 | 9,770,457 | 91,353 | 13,227 |

Source: TBL

TBL is a good example to illustrate to people the advantages of privatizing industries. It has reorganised its production facilities, motivated its employees by paying them handsomely and has in many ways replaced old technology with a new one. Currently, the number of divestures has increased to 141 parastatals out of a total of 371 such enterprises. The Government is eager to do away with as many parastatals as possible. Hence the invitation of internal and external investors

organized jointly by the Government and UNIDC at Sheraton Hotel in mid November last year. Investors as far as America came to see for themselves the economic environment existing in Tanzania. Investors were entertained at the Hotel with hopes that they would be forthcoming. Promises were made by various investors but we hope that some will mature positively or negatively. All this will depend on how well the Tanzania Government will lower or at time

eliminate various taxes and put the economic environment right. The fact that Tanzania is a safe place to invest and has plenty of resources untapped can only be meaningful if right industrial policies are pursued. The indication of good policies been written on paper have also to be translated in deeds. The major problems one could envisage with officials of the government is the administrative red-tape that one has to undergo and the indecisiveness of the government in implementing what has already agreed upon. Unless Tanzania acts quick to rectify these, investors will be hesitant to invest their economic resources in the country.

Current Problems of Privatisation

- (i) Much as we would wish indigeneous Tanzanians to take part in buying shares of parastatals, most lack capital and the know-how of business operations.
- (ii) Reform of parastatals though an on going exercise, has left many people jobless and thereby creating a pool of unemployed and at times the rate of crimes e.g. robbery and forgeries has gone up because ex-workers know rules of the game.
- (iii) Some top officials of few parastatals earmarked for sale or privatisation are probably enriching themselves before the whole exercise takes place.
- (iv) Retired employees are not promptly paid their retirement benefits. At times, it takes them months before workers can realize their benefits. Trade Unions have and will continue filing some law suits in courts against some parastatals sacking them prematurely in the name of parastatal reform.
- (v) Indecision of the government and lack of operational capital has left various assets belonging to parastatals rotting.
- (vi) The fund from which loans will be issued to ex-workers to buy shares in parastatals that are to be privatized has yet to be established. What remains is lip - service. There have been tentative arrangements between the government and workers of some parastatals to sell

shares to these workers by providing them with loans and they will repay the loans by gradually deducting their monthly salaries. The procedure is known as Management Buy Out - (MEBO). The arrangement will not bear the desired fruit because Tanzanian salaries are too low and inflation is biting hard.

- (vii) Many educated people understand the whole exercise of privatisation but the majority of workers especially at operational level think that members of the Parastatal Sector Reform Commission have colluded with potential investors.
- (viii) Even when indigenous Tanzanians are given priority to purchase 100% shares in parastatals, operation of these firms take a long time to start as a result they jeopardise their businesses because time waits for no man and the world of business is moving too fast.
- (ix) There is potential fear among workers that privatisation in the long-run will empty the government economically because investors finding no profit to their undertakings will be forced to close down their enterprises. Also workers fear the possibility of closing down investors' businesses once they are asked to do so by their home governments due to political misunderstanding e.g. the case of Taiwan and South Africa recently where the Taiwan government removed all its investments in South Africa simply because the latter recognized Mainland China.
- (x) Privatization exercise is wholly supported by certain officers who are technically qualified and their job prospects are high on the list. Normal workers are displeased with because they know that it is difficult to secure paid employment elsewhere.
- (xi) The on - going exercise of early - retirement of workers employed by various parastatal resulting from

- parastatal reform is confusing employees. There is need to initiate a continuous counselling program to prepare workers both mentally and physically for them to engage in self-employment activities.
- (xii) To some companies already privatized, already there are signs that the salary gap has widened so much so that if you are a normal worker you can hardly compare your salary with that paid to top officials of the same company.
 - (xiii) The absence of property rights especially to land ownership and the inadequate legal framework to protect the would be investor is also one among itching problems to be surmounted.
 - (xiv) Parastatal debts are enormous to the extent that private individuals are scared to buy such companies unless otherwise, equitable arrangements are made.

they are hindered in attending courses of different specialization due to strong commitments to their children or other family issues. This general attitude of women might give chance to top officials within privatized industries to terminate their services on grounds that they are untrainable.

Female employees are often absent from work than male employees due to maternity leave. Maternity leave in Tanzania takes a good 84 days off the job. The employer has to continue paying salaries for that period that she is absent. Investors who will privatize some parastatals won't tolerate an absentee worker for such a long time. It might be one of the reasons of limiting the chances of women to get paid employment. One feels that employers in the privatized industries might use informal discriminatory procedures when it comes to hiring and firing employees. They are most likely to be biased against women employees due to the fore said reason.

Privatization and Gender Issues

The social and economic changes in Tanzania have witnessed a growing number of employed women in various parastatals and the trend of employed women is likely to continue due to the fact that we have now more educated women than in the past. With the increase of women in parastatals, Tanzania hoped that it is treating all citizens equitably in terms of employment. The only dilemma was to promote them so that they could climb the managerial ladder. One can easily note that even in sectors or parastatals where they are employed in big numbers like in cashewnut factories, they tend to be concentrated in the lower echelons of management.

It is true that with the exercise of privatization of parastatals, those few in the top posts of management might lose their positions first, generally women are not active enough in union activities to defend their positions and secondly, even those few who can, the privatized industries will tend to limit the voices of labour unions in their establishment.

Most women though interested in further training,

Perhaps the fear of having many mothers on maternity leave will be minimized by the current programme of child spacing and child limiting. Women are educated about child spacing before they can conceive another child.

Minimum requirement is three years before one gives birth to a second child. But the irony is that Tanzania like other third World countries, many uneducated mothers will want to have as many children as possible. Reasons for this are advanced elsewhere in the textbooks of economic development. Hopefully, this will not count for the educated mothers who want to see children with good health and good education. Most educated families want to have three children because of the fact that the cost of educating one child alone has risen so much that the family's total income might not suffice if that particular family has many children.

Privatization of public enterprises is here to stay. If we are interested to see women in paid employment, we need to streamline our thoughts in the light of the above cited obstacles.

In conclusion then, few remarks concerning

prospects of privatisation are suggested and those include:

- (i) Tanzania cannot and will not escape such monopolies like TANESCO (Company dealing with the distribution and generating electricity) or Tanzania Telecommunication Limited and will need to lay out regulations to guide them and other competing enterprises in terms of operation procedures and the price to charge to its customers.
- (ii) Workers will eventually buy shares in the privatized enterprises. Whether these shares are or will be sold at par or below-market prices, but more important is the economic liberalization which encourages broad ownership.
- (iii) By privatisation we hope product quality will be improved because of the fear of competition and diversification will be brought about by employing modern technology at hand and do away with obsolete one.
- (iv) Productivity will increase because of shedding excess labour that was once hired by Public enterprises. Probably also profits will shoot up in privatized enterprises as exemplified by the Tanzania Breweries Limited.
- (v) Privatization of some firms like Tanzania Breweries Limited (TBL) and the Tanzania Cigarettes Company (TCC) to name only a few, have stabilized competition against the importation of beer or cigarettes from other countries. Now the imported brands of beer or cigarettes are competing fiercely to gain the Tanzania market but signs indicate that both TBL and TCC will eventually win to gain the big part of the market and export to other countries. These two companies will in the long run operate on economies of scale and sell their products at relatively cheaper prices.

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