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Parastatals in Tanzania Towards a Reform Program

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ABBREVIATIONS

CCM	-	Chama cha Mapinduzi (Revolutionary Party)
CPI	-	Office of the Commissioner for Public Investments
CRDB	-	Cooperative Rural Development Bank
DEVPLAN	-	Department of Development Planning, Ministry of Finance Economic Affairs and Planning
DDCs	-	District Development Corporations
ERP	-	Economic Recovery Program
FAO	-	Food and Agriculture Organization of the United Nations
FYP	-	Five Year Plan
GDP	-	Gross Domestic Product
GM	-	General Manager
IDA	-	International Development Agency
IFC	-	International Finance Corporation
NBAA	-	National Board of Accountants & Auditors
NBC	-	National Bank of Commerce
NDC	-	National Development Corporation
NMC	-	National Milling Corporation
NPC	-	National Productivity Council
NUWA	-	National Urban Water Authority
OPEC	-	Organization of Petroleum Exporting Countries
PIT	-	Presidential Implementation Team
PLT	-	Permanent Labor Tribunal
POC	-	Parastatal Organization Committee
PPMB	-	Project Preparation and Monitoring Board
RTC	-	Regional Trading Corporations
SCOPO	-	Standing Committee on Parastatal Organisations
TAC	-	Tanzania Auditing Corporation
TANESCO	-	Tanzania Electric Supply Corporation
TAZARA	-	Tanzania-Zambia Railway Authority
TBS	-	Tanzania Bureau of Standards
TIB	-	Tanzania Investment Bank
TLC	-	Tanzania Legal Corporation

PARASTATALS IN TANZANIA

TOWARDS A REFORM PROGRAM

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PREFACE

The Letter of Development Policy of 29 October 1986 calls for the preparation of an assessment of the parastatal sector which, along with other studies, "should help greatly both in clarifying the future role and responsibilities of the public sector and in ensuring that these responsibilities are carried out more efficiently than in the past." This study constitutes the first major step toward achieving these ends. Its principal objectives were to develop a clear picture of the sector, how it performs and interacts with the rest of the economy, a diagnosis of the causes for its poor performance and a set of recommendations to improve the situation. In large part, the recommendations aim to initiate a process that will produce and implement a Parastatal Recovery Program that is consistent with and complementary to the Economic Recovery Program.

The study was undertaken by a team of experts and consultants1/ from the World Bank and the University of Dar Es Salaam with substantial assistance from the Ministry of Finance. The field work was undertaken in April, 1987 and a first draft of the report was revised after discussions with collaborators in Dar in October 1987.

This report is divided into an executive summary, three chapters and a series of Appendixes. Chapter 1 describes the parastatal sector and assesses its performance. Chapter 2 investigates the reasons for the poor performance observed, focusing on those factors that are amenable to improvement through policy changes. Chapter 3 reviews past recommendations and efforts at reforming the parastatal sector and proposes steps to be taken from this point forward. The appendixes, among other things, present more detailed pictures of the parastatal sector, its economic and financial performance, employment and compensation practices and the institutional framework that manages and supervises the sector.

1/ Ronald G. Ridker, team leader, Sunita Kikeri, Russell Muir, John Nellis, Joseph Semboja and Mary Shirley.

EXECUTIVE SUMMARY

In recent years the Tanzanian Government has become increasingly concerned about the poor performance of the parastatal sector. This concern has been expressed in the Hamad Commission report of 1983 which identified gross inefficiencies and recommended remedies; the Annual Reports of the Tanzania Audit Corporation which have grown increasingly vociferous about the inadequacies of parastatal financial accounts and performance; a speech by President Mwinyi in November, 1985, which warned parastatals that they must get their financial affairs in order within the next two years or face serious disciplinary action; a 1987 report to Cabinet by the Presidential Implementation Team (formed in 1984 to implement the recommendations of the Hamad Commission); and the Nsekela Commission report of 1987 which was concerned with remuneration of public sector employees, parastatal performance and related institutional issues.

These expressions of concern are totally appropriate. While the parastatal sector has succeeded, at least partially, in accomplishing what was hoped for it at the time of the Arusha Declaration in 1967, it often did so only at high cost or at the expense of other goals. The nationalizations of the late sixties freed the country from dependence on foreign private investors; but the operation of the sector has resulted in increased dependence on foreign banks and aid donors and equal or greater dependence on imports (relative to GDP and to exports). An industrial base was established more rapidly than the private sector would have done; but after an initial spurt of growth, the pace of overall development has been very disappointing despite heavy investments. Indeed, growth in GDP per capita in constant prices has been negative during most years after 1976. Gross fixed capital formation and domestic savings as percentages of GDP have both declined, in large part (though not exclusively) as a consequence of parastatal performance. The composition of output has not improved. While substantial employment was generated, a class of indigenous managers and executives created and a variety of social services provided, the opportunity cost of doing so in this way was very high. And most important, far too many parastatals have been grossly inefficient in the sense that they have used more resources than they have produced for most of their lives. In the past, much of this inefficiency was hidden by the explicit or implicit subsidies and protection parastatal received. But with the discontinuance of subsidies, devaluation, tight budget and credit ceilings and reduced protection from foreign competition (because of the export retention and own import schemes), these inefficiencies have become more obvious and difficult to ignore.

Until recently, efforts to correct these problems have focused on strengthening Government supervision and control. In the late 60's the Government established SCOPO, the Tanzanian Audit Corporation and sector holding companies with powers to advise, request reports, and sanction or otherwise intervene in a variety of parastatal decisions. In 1974 the post of Commissioner for Public Investment was established and combined with the functions of the Treasury Registrar, and in 1975 and again in 1983 the

powers of this office were expanded. As a result of the Hamad Commission report, the all-purpose crop authorities were replaced by cooperatives and marketing boards, several parastatals were closed down or merged into other agencies, rules governing membership on boards of directors were changed, a large-scale effort to reduce public sector employment was undertaken and a series of programs initiated to reduce waste and increase cost-consciousness. The impact of all these efforts has be relatively small, in part because they have not gone far enough and in part because they have failed to attack more fundamental problems such as lack of competition and inadequate managerial accountability and autonomy.

With the introduction of the Economic Recovery Program (ERP) in 1986, this situation began to change. By devaluing the shilling, raising interest rates, strictly limiting access to funding through the budget and credit institutions, introducing the export retention and own-funded import schemes, eliminating many price controls and lifting restrictions on trade and transport of related commodities, this program has placed the parastatals under considerable pressure to improve performance. Parastatals that can adapt to the new situation by improving internal efficiency or by shifting, for example, from lines heavily dependent on imports to export oriented activities, will prosper; those that cannot will be hurt with less prospect of being bailed out.

While the ERP addresses some of the fundamental causes of parastatals' poor performance, it fails to address others and does not take into account special problems that parastatals face just because of the ERP. Increased financial pressure on parastatals to improve performance is not always translated into increased pressure on managers and senior staff. Even where it is, these individuals cannot respond properly if they are impeded by red tape, absence of technical knowledge, lack of resources or overwhelmingly large debt service obligations (made worse in some cases by recent devaluations). At a minimum, therefore, the following additional issues must be addressed to develop a complete program for parastatal reform.

(1) Absence of overall strategy and clarity on goals. Tanzania has no up-to-date statement of general principles that can serve as a guide to parastatal operations and decision-making; nor is there good coordination between national goals and plans and parastatal goals and plans. The consequence is lack of clarity about performance criteria which allows poor commercial performance to be excused, *ad hoc* decisions of doubtful national benefit that are difficult to argue against, requests that parastatals perform functions they are not equipped to undertake, and expectations on the part of managers that their company will be bailed out rather than be allowed to go bankrupt if they fail to perform and that their job is relatively secure regardless of the fortunes of the company.

To correct this problem the report recommends the appointment of a committee or task force to clearly lay out the criteria by which parastatal performance is to be judged, specify and explain the policies to be applied to the sector (and where necessary to individual parastatals) and lay this out in a comprehensive public policy statement. A considerable amount of

rethinking has already taken place (see first section of Chapter Three); what is necessary now is to codify these materials and fill in gaps. Examples of such statements developed for this purpose by other countries are included in Appendix E. It is also recommended that the President issue a statement announcing the appointment of this task force, indicating in general terms the new policies to be developed, announcing a series of interim measures to apply until the policy statement is issued and periodically reinforcing the new set of expectations (for example, that bailouts should not be expected).

(2) Excessive number of parastatals given the availability of resources and managerial capacity. Tanzania has more parastatals than many much larger countries with greater administrative and managerial talents at their disposal. Most parastatals are underfunded--noncommercial parastatals because of a tendency to spread scarce budgetary resources evenly and commercial parastatals because of a failure to generate sufficient internal funds--and high quality managers and staff of both parastatals and supervisory bodies are overloaded. The consequence is that no agency, whether of high priority or not, is fully capable of getting on with its job.

The only remedy for this situation is to reduce the size of the parastatal sector and concentrate the resources and managerial talent saved on those parastatals that remain. To accomplish this, the report recommends that parastatals be classified into four groups and special programs be established for each.

First, noncommercial parastatals should be separated out and subjected to special review to determine whether their continued existence is still warranted: whether their functions are still needed and if so could be served better in other ways, for example by existing Governmental departments or private voluntary agencies. Those which are to remain parastatals should then be administered separately from commercial parastatals. Second, it is recommended that commercial parastatals be subdivided into those that must be maintained in public hands and made to work effectively, those that no longer have any rationale and are to be divested and the remainder that should be allowed to fend for themselves, prospering or failing without special help or intervention.

Commercial parastatals to be maintained would work out with Government a plan or agreement that in the initial year would include equipment rehabilitation and financial restructuring if necessary and on an annual basis would include cost minimization targets, pricing formulas and investment plans. Such plans could have significant budgetary implications which need to be taken into account in forward budgetary exercises. For this reason, but also because the Government's ability to adequately develop and administer such plans is limited, the number of such agreements, and hence the number of firms in this category, must be strictly limited. Accordingly, this category is likely to include firms typically considered public utilities or natural monopolies that must be regulated in any case, plus financial institutions, but few if any others.

Parastatals to be divested would include those which no longer serve any useful purpose, which are clearly not capable of becoming economically viable in a reasonable period of time or which the Government decides it no longer wishes to manage itself. If a parastatal fits one of these criteria, a plan for phasing it out and redeploying its useful assets would be worked out. It may also be necessary in some cases to develop a transition assistance program for labourers laid off in the process. Some candidates for this category could equally well be placed in the next category and allowed to fend for themselves; the choice should be made on pragmatic and political grounds, keeping in mind the benefits of rapid disposal of clear-cut cases.

All other commercial parastatals would be allowed to fend for themselves without preferential treatment but with greater freedom to respond to competition and, if they find it useful, form joint ventures or enter into management contracts. Some may warrant temporary assistance to overcome past problems. Since Government resources available for such assistance are extremely limited, the report recommends the establishment of a fund from which awards would be made on a competitive basis to a limited number of firms best able to demonstrate their capacity to become economically viable if this assistance is provided. This is meant as an interim measure to assist with transition problems; on a more regular basis the banking system should be prepared to play this role.

(3) Weak Competitive Pressures and Discriminatory Treatment. Parastatals have been protected from domestic competition by enjoying exclusive rights to operate in certain fields and from international competition by the import licensing and foreign exchange allocation system. They have also enjoyed preferential treatment over the private sector, for example, in the allocation of credit and foreign exchange at low, official prices, in access to foreign technical assistance and capital, and in willingness to tolerate arrears in payment of bills and debt service. The consequence has been an absence of pressure for high-quality performance.

At the same time, parastatals also have major disadvantages in facing competition. Appointment procedures sometimes result in weak boards and managerial teams; wage and compensation policies make it difficult to compete with the private sector for high-calibre, skilled personnel; parastatals are sometimes expected to perform services that are not in their best commercial interest; and they are saddled with problems from the past, including failure to develop the necessary skills to compete, managers with a civil service rather than an entrepreneurial mentality, and large foreign debts which now, because of devaluation, have become excessively burdensome.

A variety of measures are required to correct these problems. Among the more important are measures that impose greater financial discipline (by, for example, forcing the settlement or renegotiation of payment arrears and then, after a grace period, declaring any firm in arrears to be ineligible for credit or budgetary support regardless of

priority) that make it clear that commercial parastatals are not required to perform social services unless these services are specifically contracted and paid for, and that eliminate all artificial barriers to entry into commercial activities.

(4) Absence of a regulatory system that rewards and punishes on the basis of performance. In the private sector, the fortunes of senior managers are relatively closely linked to those of the company. In the public sector, where this linkage is much weaker, some administrative mechanism of rewards and punishments on the basis of performance must be substituted to force managers to be equally aggressive in seeking maximum profits. The present regulatory system does not accomplish this. To the extent it rewards and punishes managers at all, it is more for compliance with regulations and procedures than for commercial results. The report recommends inclusion of an incentive scheme in each contract plan negotiated with parastatals, performance to be judged by an expert committee. For the bulk of parastatals that do not have contract plans, a more general procedure is recommended.

(5) Absence of an Authority to Implement Structural Changes. Present institutional arrangements include numerous agencies with overlapping responsibilities and no one with clear authority to implement changes in the system. To force this system to change, authority must be shifted upwards and downwards--upwards towards a central agency with the power to develop, implement and enforce a new set of policies and downward towards parastatal managers who, just because they have more authority can be held more accountable for results. The report recommends the establishment of a small agency headed by someone with the rank of Minister or Principal Secretary with the authority to develop and implement--or assign responsibility to other agencies to implement--the policy changes recommended. This agency, which to be effective may have to report directly to the President, should be considered temporary, operating only until the sector has been restructured and the line ministries' capacity to properly manage and supervise parastatals has been strengthened. The report also recommends a reduction in the number of ministries, holding companies and special agencies involved in parastatal affairs as the size of the parastatal sector is reduced and an increase in the freedom of managers and boards to establish independent policies for their parastatals, to be accomplished by shifting from reliance on uniform regulations to reliance on guidelines and negotiated arrangements.

CHAPTER ONE

HISTORY, DESCRIPTION AND PERFORMANCE

1.01 The Tanzanian Government has become increasingly concerned about the performance of its parastatal sector and has taken a number of steps to deal with the situation. While these steps have yielded some promising results, more stringent measures are needed and are being considered. The goal of this report is to assist with these deliberations by reviewing the problems of the sector and their causes, what the Government has done so far, how effective and appropriate these measures have been, and what else needs to be done to complete the process. The focus is on the overall policy environment within which parastatals operate rather than on individual institutions.1/

1.02 Parastatals, as the term is used in Tanzania, include commercial enterprises in which the Government owns 50 percent or more of the shares plus regulatory bodies, marketing boards, holding companies and noncommercial agencies such as educational and research institutions set up under one of several acts of Parliament. These acts include the Companies Ordinance (Cap.212) which authorizes the establishment of limited liability companies for commercial purposes (most parastatals were established under this act); the Public Corporations Act, 1969 (which empowers the President to directly establish public corporations); the District Corporations Act, 1973 (corporations involved in trade and promotion of economic development at the district level); The Corporation Sole Act, 1975 (which established the Dar es Salaam Water Corporation Sole plus two other organizations that are semi-autonomous and semi-commercial departments of sector ministries); and specific acts of Parliament (which established the Tanzania Harbours Authority, the Tanzania Railways Corporation, Air Tanzania, the National Urban Water Authority and the marketing boards).

1.03 This report is primarily concerned with commercial parastatals, those expected to generate a surplus through the sale (to the public or private sector) of the goods or services they produce. It will, however, review and comment on non-commercial parastatals as appropriate. Many of the comments and recommendations made about commercial parastatals will apply to other categories of organizations that operate within a similar policy and regulatory environment, for example, enterprises in which the Government has a minority but still a controlling interest and cooperatives, which are considered part of the private sector but which receive, at times, preferential treatment from the Government (e.g., in the allocation of credit, donor finances, vehicles and equipment).

1/ More detailed studies of parastatals in specific sectors are available in other World Bank reports. Most noteworthy, are Chapter III and Annex 3 of Tanzania: Agricultural Sector Report, 1983, and Appendix B of Tanzania: An Agenda for Industrial Recovery, 1986.

Evolution of Parastatal Sector

1.04 Up to the time of independence in 1961, the economic development that occurred in Tanganyika was largely the result of private initiative. The colonial Government provided administrative services and infrastructure, assisted some enterprises by purchasing minority shares and established crop marketing boards for major crops such as cotton, coffee and sisal. It had majority shareholdings in only three enterprises, a diamond mine, a salt mine and a meat packing plant. These shares were held by the Treasury Registrar, an office established in 1959 to manage the Government's portfolio. For the most part, the Government kept out of all management decisions and did little to regulate or even monitor the activities of these enterprises.

1.05 With some modifications, this pattern continued until 1967. A number of additional parastatals were established, among them the National Housing Corporation, the National Insurance Corporation, the National Development Corporation (originally the Tanganyika Development Corporation), a holding company to manage and promote the further development of state-owned enterprises, plus several additional marketing boards and financial and banking institutions. In 1966, there were about 43 parastatals; more than 2/3 of their assets were in the electricity and mining sectors, only 10 percent was in manufacturing and the remainder were spread over other sectors--construction, tourism, agriculture, commerce and finance. But overall the Government was optimistic about its ability to attract foreign investors and donors and assumed that "the main thrust in industrial investment was to come from private investment" with the public sector "filling gaps left by private investments".2/ To encourage private investors the Government introduced a number of incentives, for example, accelerated depreciation allowances, tariff protection and guarantees of profit repatriation. And the First Five Year Plan (1964-69), while adopting an ambitious public investment program, nevertheless assumed a private investment share of 75 percent in the industrial sector.

1.06 By the mid 60's, however, the Government had become disillusioned with reliance on private investment. The inflow of private capital from abroad was far less than expected and what little there was continued to go into traditional areas rather than broadening and diversifying the industrial base. At the same time, the political and social philosophy of the mid 60's called for independence, self-reliance and greater emphasis on social objectives such as employment generation and rural-urban equality;

2/ Figures from W. Edmund Clark, Socialist Development and Public Investment in Tanzania, 1964-73, University of Toronto Press, 1978. Quotes from the First Five Year Plan and a policy statement by then-President Nyerere introducing the Second Five Year Development Plan (1969-1974) included in J. V. Mwapachu, Management of Public Enterprises in Developing Countries, Oxford & IBH Publishing Co, New Delhi, 1983, p.12.

while the economic philosophy of the time called for the use of public ownership and central planning and control as the principal instruments to achieve these objectives. This philosophy was spelled out in the Arusha Declaration of February, 1967 which called for public ownership of all important economic activities. The goal of this new policy was to gain control of the economy so that it could be mobilized to serve a number of socioeconomic objectives, namely:

- -- to promote self-reliance;
- -- to force the pace of economic development by mobilizing and generating surpluses for investment that might otherwise be used for consumption or leave the country;
- -- to change the pattern of development, placing more emphasis on rural and agricultural development and production to meet basic needs;
- -- to distribute the fruits of development more equitably by increasing productivity, employment and the standards of living of the masses, concentrating on the production of basic needs and eliminating profiteering and exploitation; and
- -- to accomplish these ends efficiently, that is, at minimum cost to the economy.

Other routes to controlling the economy--reliance on regulation of the private sector and public investment alongside private investments--were generally rejected, the first, apparently, because of doubts about the ability of the Government to regulate the private (often foreign-owned) sector and the second because of shortages of skilled manpower and capital which, in the view of planners at the time, placed a premium on avoidance of duplication.

1.07 The call in the Arusha Declaration for greater emphasis on rural development and agriculture was not implemented during this period. Instead, the Second Five Year Plan (1969-74) continued the emphasis on industrial development--in contrast to the First FYP, however, the public sector was to account for 88 percent of total investment--and the Third FYP (1974-79) adopted what was called The Basic Industrial Strategy. The goals of this strategy were to reduce external dependence by import substitution, give industry priority over other sectors and, in particular, promote capital and consumer goods industries. In effect, this policy meant continued large public investments in the manufacturing sector from the mid-60s through most of the 70s.

1.08 The result of the Arusha Declaration was rapid proliferation of public sector organizations and assets. The number of parastatals increased from about 43 in 1966 to 73 by the end of 1967, 380 in 1979 and over 410 at

the present time. Between 1964 and 1971, parastatal assets grew 5.5 times. About 30 percent of this increase occurred through nationalizations, most of which took place in 1967 and 1968. Forty percent of the assets acquired in this way were in the commercial sector (most involving the acquisition of real estate), 36 percent were in the manufacturing sector and the remainder were split roughly equally between agriculture and finance. The remaining 70 percent of the increase in parastatal assets during this 1967-71 period involved an actual increase in capacity, half because of the establishment of new firms and half because of the expansion of existing firms. Of the assets created by investing in new firms, half went into manufacturing, a quarter into transport (most of which went to develop the Zambian corridor in the wake of the Unilateral Declaration of Independence by the white controlled Government of Rhodesia in 1965) and 13 percent to tourism. Expansion of existing capacity occurred mostly in manufacturing, electricity, commerce and construction.3/

1.09 Since 1971 parastatal growth has been much slower. Little was left to nationalize, fewer joint ventures were established and domestic and foreign savings became increasingly difficult to mobilize. A larger fraction of parastatals established after this period were holding companies, regulatory bodies, non-commercial organizations (such as educational and health related agencies) and regionally oriented enterprises (regional transport companies, regional trading companies and district development corporations), most of which are quite small. While no comprehensive estimates on growth in assets could be found for this later period, this picture is consistent with time series data indicating a fairly steady decline in parastatal fixed capital formation--in constant price shillings, as a percent of GDP and as a percent of total investment--from 1971 through 1985 (see Figures 1 and 2).4/ It is also consistent with information on parastatal assets in the manufacturing sector that indicates a dramatic slowdown in the rate of increase from the early 70s to the early 80s, a slowdown that would be even more dramatic if the figures had controlled for inflation over this time period.5/

3/ See Clark, op. cit.

4/ See note to Figures 1.1 and 1.2.

5/ Parastatal fixed assets in the manufacturing sector increased from sh 21 million in 1964 to sh. 971 million in 1971, according to Clark (p.103), and to sh. 2,85.1 million in 1979 and sh. 3,278.4 million by 1981, according to unpublished data from the Bureau of Statistics presented in World Bank, Tanzania: An Agenda for Industrial Recovery, Vol. II, p.119. This implies an annual percent change (and absolute change) in the period 1964-71 of 73 percent (sh. 136 mill.), in 1971-79 of 15 percent (sh. 252 mill.) and in 1979-81 of 5 percent (sh. 146 mill.). Considering inflation rates during this period, parastatal fixed assets in manufacturing in constant prices may actually have decreased in the last few years.

Fig. 1.1 FIXED CAPITAL FORMATION BY INSTITUTION: PERCENT OF TOTAL

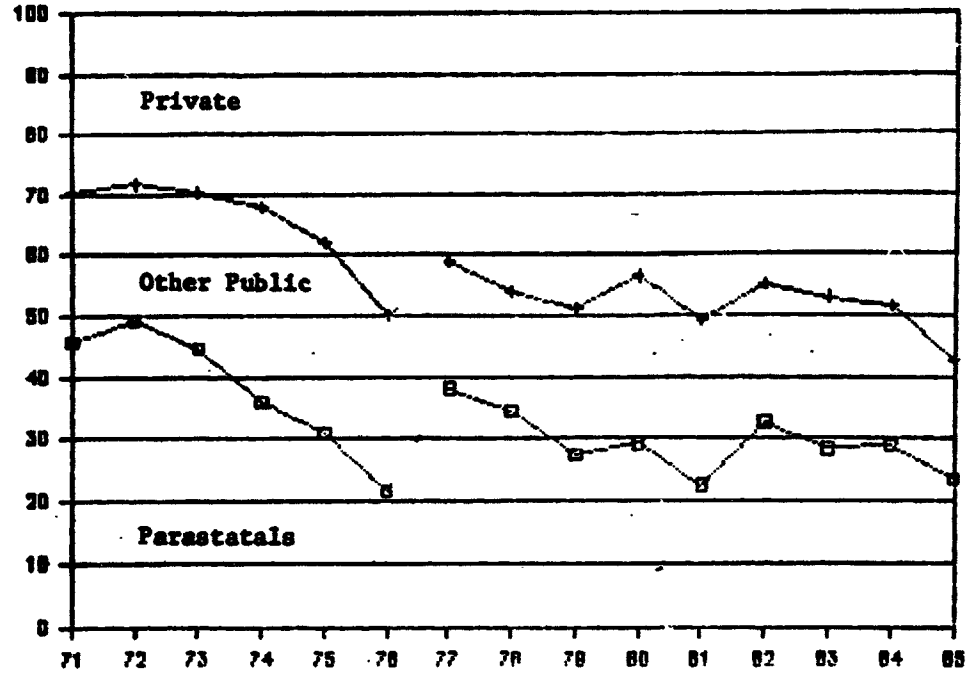
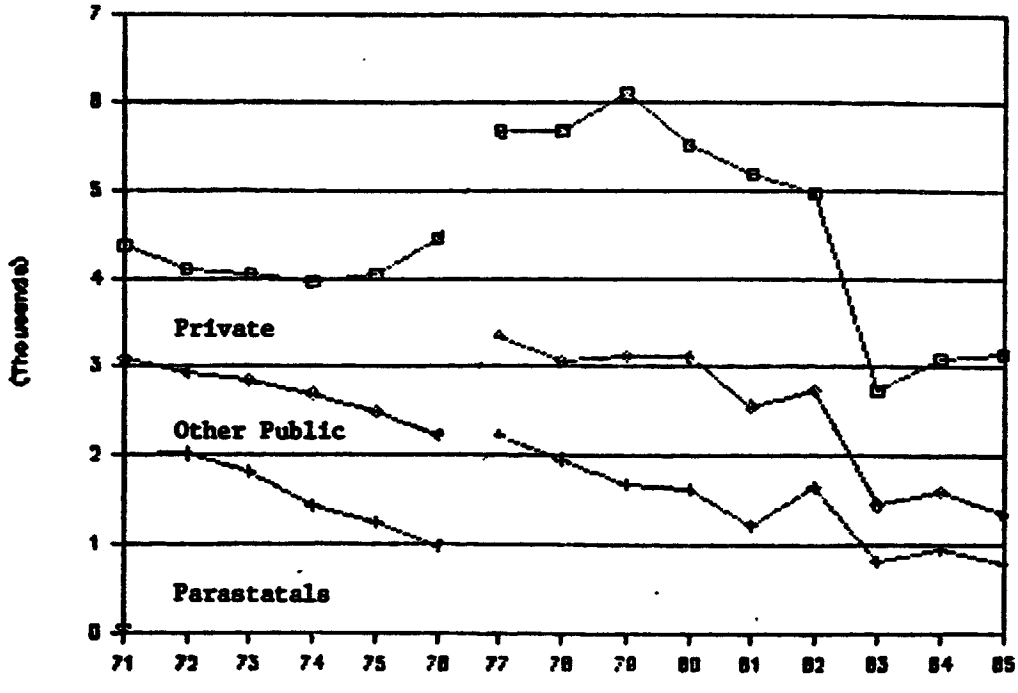


Fig. 1.2 FIXED CAPITAL FORMATION: MILLION SHILLING, 1976 PRICES



Note: The increase from 1976 to 1977 is misleading since a revised series of national accounts was started in that year. A continuation of the old series indicates a continued decline, albeit at a slower pace, from 1976 to 1982.

1.10 This growth of the public sector was accompanied by the introduction of a host of complex economic regulations and controls. The most important were central control of investments, administrative allocation of foreign exchange, imports and credit, price and wage controls, and "confinement"--the assignment of exclusive rights to perform certain economic activities to various public sector enterprises. The proliferation of such controls and confinement policies, many of which resulted in preferential treatment for public enterprises, has no doubt adversely affected the private business climate. While comprehensive figures are not available before 1971, private investment appears to have been low from the mid 60s to the mid 70s. Thereafter, however, it appears to have increased (see Figures 1.1 and 1.2 and Appendix Table A4.1). It is not clear why this might be the case. One explanation is that by the mid 70s parallel (unregulated) markets had developed to the point where private investment once again became profitable, despite limited access to foreign exchange and credit at low official prices. Another is that these figures are misleading since the cost of private investment has been rising more rapidly than that of public investment (since private firms deal to a greater extent in parallel, uncontrolled, markets and parastatals more at official prices which have been rising less rapidly); if both could be deflated by more appropriate price indices, the picture might be quite different.

Principal Characteristics

1.11 The net result of these developments is a very large, diverse and complex parastatal sector. Only in countries as large as Brazil (six times the population and 50 times the GDP of Tanzania) and Mexico (3.6 times the population and 35 times the GDP) does one find more than 425 parastatals. Parastatal value added as a percent of GDP, which rose from about 2 percent in 1964 to 7 percent in 1967 and 9 percent in 1972 (or 12 percent of monetary GDP), now stands at about 13 percent.6/ This figure is about average for a sample of 34 developing countries that includes Zambia, Nicaragua, Egypt, Venezuela and Tunisia but is 3 points above average if these special cases are excluded.7/ The share of nonagricultural wage employment by nonfinancial parastatals was 32 percent in 1978; only Zambia and Benin in a worldwide sample of 34 countries have higher percentages.8/

6/ Data differ substantially depending on source. The figures for 1964-72 come from Clark, op. cit. p.63. The latest figure (for 1984) is computed from the Ministry of Finance and Economic Planning, The Economic Survey, 1985. A study by L. A. Msambichaka, S.M.H. Rugumisa and J.J. Semboja, The Role of the Public Sector in Development--Tanzania, Economic Research Bureau, University of Dar es Salaam, June, 1985, places this figure at 19 to 20 percent of monetary GDP for the years 1972 to 1979 and 25 percent in 1980

7/ Mary M. Shirley, "Managing State-Owned Enterprises", World Bank Staff Working Papers, Number 577, p.95. These cases are special because of publicly owned copper and oil companies that dominate these economies.

8/ Employment by all parastatals as a percentage of total wage employment was estimated at 1.4 percent in 1964, 7.5 percent in 1967, 18.3 percent in 1972 and now stands as about 24 percent.

Fixed capital formation by Tanzanian parastatals accounted for 50 percent of total investment in the early 70's and 35 percent in the early 80's, compared to a weighted average of 11 percent for industrial countries and 27 percent for developing countries.9/

1.12 Parastatals are even more important in some sectors. More than a third of parastatal assets are concentrated in the energy and minerals sector, slightly less than a third are in industry and trade and 14 percent in agriculture (see Table 1.1). As Table 1.2 indicates, parastatals generated 47 percent of both value added and employment in the manufacturing sector and 37 percent of value added and 68 percent of employment in the transport sector. Among other things, they produce all of the cement, beer, fertilizer, and refined sugar; import all the petroleum, fertilizer and motor vehicles, and up to recently had exclusive rights to trade in certain commodities.

Table 1.1

GOVERNMENT SHAREHOLDING IN PARASTATALS, JUNE 30, 1986

Sector	Paid up Share Capital (TSh. Million)	Percent of Total
Financial Institutions	408.7	4.6
National Resources/Tourism	637.6	7.2
Communications and Works	624.8	7.1
Agriculture & Livestock	1228.5	14.0
Energy & Minerals	3249.7	36.9
Industries & Trade	2656.3	30.2
TOTAL SHARE CAPITAL	8,805.6	100.0

Source: Ministry of Finance, Treasury Registrar, Tanzania

9/ Shirley, 1983, pp. 96 and 97.

Table 1.2

PARASTATAL CONTRIBUTION TO SECTOR VALUE ADDED AND WAGE EMPLOYMENT

Sector	Value Added	Wage Employment
Agriculture	1.0	13.6
Mining	21.3	55.1
Manufacturing	46.9	46.5
Electricity	21.2	4.5
Construction	28.4	36.4
Commerce	29.1	53.3
Transport	20.3	87.0
Finance and Real Estate (a)	0.2	0.7
TOTAL	12.8	24.4

(a) If real estate were excluded, these figures would be close to 100 percent.

Source: Economic Survey, 1985

1.13 The sector is also very diverse. It includes large companies (for example, Aluminum Africa with over TSh. one billion in annual sales and over 1000 employees and Kilombero Sugar Company with over 6000 employees) as well as quite small ones (for example, THB Estates with 27 employees in 1985); natural monopolies (Tanzania Harbours Authority and Tanzania Electric Supply Company) and potentially competitive firms (Tanzania Sewing Thread Manufacturing Company); noncommercial institutions that are clearly important (University of Dar es Salaam) and others that are seemingly unimportant (Audio Visual Institute); and firms in every conceivable line of business (including consulting companies, marketing boards, trade associations, tourist promotion agencies, hotels, safari camps, institutes to promote local languages and culture). Appendix A1 provides a relatively complete list with selected characteristics.

1.14 While a third of the parastatals are affiliated with the Ministry of Trade and Industry and 22 of these are supervised by the National Development Corporation, the largest holding company, virtually every other ministry as well as the offices of the Prime Minister and the President have some parastatals under their jurisdiction (see Tables 1.3 and 1.4 for a summary, and Appendix A1 for a detailed picture).

Table 1.3

THE PARASTATAL SECTOR IN TANZANIA

Ministry Affiliation	No. of Parastatals	Of Which: Holding	Commercial	Non-Commercial
Agriculture & Land Devt.	61	5	53	3
Communic.& Transp.	26	1	20	5
Education	7	0	1	6
Finance & Planning	20	0	15	5
Health	3	0	0	3
Mineral & Energy	22	2	20	0
Labor & Manpower	4	0	0	4
Nat. Res.& Tourism	36	0	31	5
PM's Office	85	0	76	9
President's Office	6	0	4	2
Trade & Industry	131	10	112	9
Water	1	0	1	0
Other a/	11	0	6	5
TOTAL	413	18	339	56

a/ Includes Defense, Foreign Affairs, Judiciary and Land, Housing and Urban

Source: Table A1.

Table 1.4

SUPERVISION OF PARASTATALS IN TANZANIA

SUPERVISING AGENCY	NUMBER OF PARASTATALS
Agriculture and Land	
Cashewnut Authority of Tanzania	2
NAFCO	10
NMC	2
SUDECO	4
Tanzania Sisal Authority	5
Ministry	33
Total	56
Communications and Transport	
NTC	9
Ministry	16
Total	25
Finance and Planning	
Ministry	20
Total	20
Minerals and Energy	
STAMICO	14
Tanzania Petrol Devt. Corp.	4
Ministry	1
Total	19
Natural Resources and Tourism	
Ministry	36
Trade and Industry	
BIT	8
NCI	7
NDC	22
TEXCO	12
SIDO	1
SMC	13
TBL	3
TKAI	5
TLAI	6
SARUJI	11
Ministry	24
Total	112

Source: Table A1.

Parastatal Performance

1.15 The parastatal sector has a number of significant accomplishments to its credit. Through them the Government has eliminated private, especially foreign, economic power centers that might have controlled the economy. Parastatals have filled gaps left by the private sector, eliminated some sources of profiteering and established a significant, albeit capital intensive, industrial base where little existed before. And the parastatals have served as a training ground for a new generation of indigenous business managers and executives; had the private sector been relied upon, fewer Africans would have received this training and it would have occurred more slowly. But the parastatal sector has not, or only partially, fulfilled other goals, and sometimes done so only at high cost.

1.16 Self reliance. Increased self reliance means reduced dependence on imported consumer and capital goods and on foreign experts and managers. Clearly, substantial progress has been made in reducing dependence on foreign expertise, although the education sector, not the parastatal sector, deserves principal credit. So far as the other two dimensions are concerned, progress has been far less than hoped for. Tanzania freed itself from dependence on foreign investors but has become more dependent on foreign banks and aid donors. It produces a much wider range of goods than in the 60's, but the import content of these commodities is high, sometimes higher than had the finished goods been imported. Statistics on imports reflect these trends. As a percent of GDP, imports have remained above 25 percent from 1965 through 1980; they dropped below that level during the next few years (mainly because of severe foreign exchange shortages) but then rose again in 1986. Imports minus exports as a percent of GDP have been above 9 percent for 11 of the past 15 years (the only exceptions being 1972/73 and 1976/77); it was 10.5 percent in 1985 and 14.5 percent in 1986. In the manufacturing sector, imported input costs as a percentage of total input costs (excluding oil) increased from 15 to 53 percent between 1961 and 1984.10/

1.17 The pace of development has not increased. From 1966 to 1976, GDP in constant prices grew at 4.6 percent per year, little more than 1 percent above population growth. Since then, it has grown at 1.7 percent per year with the result that GDP per capita is lower today than it was in the early to mid 70's. Value added and production in the manufacturing sector, where investments by parastatals have been concentrated, has actually declined between 1976 and 1986, from 3.1 to 1.0 billion shillings (in 1976 prices), a decline of 68 percent.

10/ Government of Tanzania, Economic Survey, various years, and World Bank, Tanzania, An Agenda for Industrial Recovery, Volume I, p. 10 (henceforth cited as Agenda). These figures are underestimates since they are based on official prices; if imports and exports were valued at parallel market rates for foreign exchange, these percentages would be much higher,particularly in later years.

1.18 Throughout most of this period, gross fixed capital formation has been declining, from 24 percent of GDP in 1976 to 16 percent in 1985 and 17 percent estimated for 1986. Most of this decline results from declines in parastatal and central Government investments; from 1977 to 1985 these components declined in constant prices by 65 and 60 percent respectively, whereas private investments declined by 22 percent.

1.19 Over the same period the amount of domestic savings mobilized from GDP to finance this investment also declined, from 20.8 percent in 1976 to 6.8 percent in 1985 and as low as 2.2 percent in 1986. Thus, the economy has become ever more dependent on foreign aid and loans to finance investment, not less so as envisioned by the authors of the Arusha Declaration. A fall in retained profits out of value added generated by parastatals, from 39 percent in 1976 to 25 percent in 1984, accounts for some of this decline; but the bulk of it results from increased current account deficits by the central Government (see Appendix Table A4.2). Savings as a percent of value added generated by the private sector do not appear to have declined (but the evidence is weak since the only way to calculate private savings is as a residual which includes some public savings and many errors and omissions).

1.20 Dissavings by the central Government is significantly related to the failure of parastatals to contribute much on net to their owner. As Table 1.5 indicates, over the five year period ending in 1985/86, there was a net transfer on current account of only 991 million shillings. This figure includes corporate taxes which these firms would have paid to the Government even if they had been privately owned; if these taxes are excluded, there has been a net transfer from the Government to parastatals of 7.8 billion shillings over this period. Very few parastatals remit any dividends to the Government;11/ indeed, more than three fourths are contributed by the Bank of Tanzania (see Appendix A5). Most subsidies are paid to crop authorities; in earlier years they were meant to cover differences between purchasing and selling prices, but after 1984, when the decision was made to cease providing subsidies, they have been provided to cover past debts and interest obligations, principally of the National Milling Corporation.12/ Grants and subventions, defined as payments to non-commercial parastatals (e.g,, TSh. 318.5 million for the University of Dar es Salaam and 15.5 million for the Tropical Pesticides Research Institute

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11/ Subsidiaries of holding companies are supposed to pay dividends to their holding companies which after taking care of necessary expenditures and capital projects, are supposed to remit dividends to the Government. In practice holding companies remit very little.

12/ However, these figures are probably underestimates since they do not include line items in parastatal accounts that appear to be in the nature of subsidies. For example, the National Transport Company accounts for 1985 show an income item of TSh. 3.9 million titled "Trucking Project Funds from Treasury" and the Aluminum Africa Corporation had an "Export Subsidy" of TSh. 4.3 million in its 1984 accounts.

in 1985/86), appear to be growing, though not in real terms. The major tax contributors are the brewery, cigarette and textile companies. The figures in Table 1.5 do not include interest payments and short term loans on current account and grants and loans on capital account which, taken together, further reduce parastatal contributions.

Table 1.5

TANZANIA: RESOURCE FLOWS BETWEEN GOVERNMENT & PARASTATAL SECTOR
1981/82 - 1985/86
(Tanzania Shillings Millions)

	Dividends				Grants & Subventions	Net Transfers to Government	
	Number Remitting	Amount	Corporate Taxes	Subsidies		Including Corporate Taxes	Excluding Corporate Taxes
1981/82	10	199.0	1185.0	958.1	615.7	(89.9)	(1374.8)
1982/83	9	333.6	1348.0	1,333.5	844.6	(496.5)	(1844.5)
1983/84	9	362.1	1515.0	1,322.1	896.0	(341.0)	(1856.0)
1984/85	11	406.7	1680.0	734.4	988.5	463.8	(1216.2)
1985/86	19	444.1	2959.0	714.6	1233.3	1455.2	(1503.8)

Source: Ministry of Finance, Treasury Registrar, Tanzania

1.21 The composition of output has not changed in the directions desired. Despite heavy investments to create capacity to produce capital and intermediate goods, particularly in non-traditional lines like chemicals, fertilizers, rubber, plastics and metals, the composition of manufacturing output judged in domestic prices has changed only modestly, capital goods increasing and consumer goods decreasing as percentages of value added in manufacturing between 1965 and 1983. Indeed, if judged in international prices, it has changed in perverse ways: in these terms, between 1965 and 1984 the share of value added contributed by the production of consumer goods increased from 56 to 85 percent while that of capital goods increased from 3 to 4 percent and that of intermediates decreased from 40 to 11 percent. The difference in outcome when judged by international prices is because the structure of protection is biased in favor of the most inefficient firms, to keep them alive; and such firms are concentrated in the intermediate and capital goods sectors.13/

13/ Agenda, op. cit., Volume I, pp.3-4.

1.22 The parastatalf employment--80,000 in 1974 and 176,000 in 1984 (24 percent of total wage employment in 1982)--but it has done so at considerable cost. Had the same amount of capital been invested in less capital-intensive and less foreign exchange-intensive ways, and had per capita output increased rather than declined during the last decade, employment op -tunities would have been far greater.

1.23 Labor income, instead of increasing in real terms, has declined steadily since the early 70's; and parastatals appear to have led the way. Table 1.6, which covers all sectors up to 1980 and the parastatal sector thereafter, indicates how dramatic that decline has been: more than a 70 percent decline for all categories of workers.14/ During the 70's, parastatals in the industrial sector may have paid workers more than did the private sector, as one study of that period indicates.15/ But all other evidence for the 80's suggests that parastatals paid workers less and that the differential widened.16/

14/ It is difficult to believe that total income has fallen this much. One possibility is that nonwage benefits have increased in real terms. Appendix B suggests that they have at least for higher salaried personnel for whom real wages have fallen the most. Another possibility, also suggested by Appendix B and probably of more significance, is that second jobs have become increasingly important. But it is difficult to believe that these two factors could have kept total income from declining significantly.

15/ See Msambichaka, et. al., The Role of Public Sector in Economic Development - Tanzania, Phase Two, September, 1985, Table 2.2, which surveyed 100 public and 30 private industrial firms and covered the period from 1975 to 1979.

16/ Unpublished data from the Bureau of Statistics covering medium and large manufacturing companies in 1981 indicate that parastatals paid operatives 7 percent less and non-operatives 27 percent less than private firms. See Agenda, op.cit., Vol.II, Table A 2.5, p. 103. See also Table A 2.10, p.107 for a sector breakdown. A sample of sisal estates (three private, two public and one joint) covering the period 1981-1984 also indicates that parastatals paid lower wages than private estates. See Semboja, et. al., The Role of Public Sector in Economic Development - Tanzania, Phase III, The Sisal Sector, November, 1986. Finally, two sets of data covering the period 1976 through 1984 indicate that parastatal labor costs per employee in constant prices declined substantially whereas per capita income for the whole economy remained roughly constant during this period. The first set involve responses to a Bureau of Statistics questionnaire sent to all parastatals indicating that remuneration per employee in constant prices declined by about 46 percent. See Bureau of Statistics, Analysis of Accounts of Parastatal Enterprises, 1973-1982, plus unpublished materials for 1983 and 1984 and the Economic Survey for price deflator and per capita national income. The second set, again from the Bureau of Statistics but covering only manufacturing parastatals, indicates that there was a decline of 63 percent in labor costs per employee over

Table 1.6 INDEX OF REAL WAGES FOR REPRESENTATIVE GROUPS, 1969=100

Sectors	Year	Minimum Wage	Average Wage	Middle Salary	Top Salary
All	1968	90	97	95	102
	1969	100	100	100	100
	1970	96	103	103	93
	1971	93	103	105	88
	1972	119	99	106	75
	1973	109	102	96	67
	1974	135	133	91	56
	1975	103	108	68	44
	1976	83	104	64	39
	1977	71	98	58	33
	1978	61	86	51	30
	1979	58	77	45	26
	1980	63	65	37	21
Parast. only	1981	60	56	24	18
	1982	49	47	24	14
	1983	40	39	17	12
	1984	46	31	16	11
	1985	31	NA	NA	9

Note: The figure for average wage in 1979 was estimated by assuming that the average percent change in other categories applies to this case as well. Numbers for 1981-85, plus that for 1980 average wage, are for public sectors only, are based on 1977 prices, and may not include an adjustment for this.

Source: For 1968-80, T.R. Valentine: "Wage Adjustments, Tax Rates, Accelerated Inflation in Tanzania." ERB, 1983.

For 1981-85, plus 1980 average wage, National Productivity Council, Productivity and Operations Report for the Year ending 30 June 1986.

1.24 Parastatal service to the masses has also been disappointing. Publically owned shops in remote areas, while charging lower prices than private traders, have been virtually devoid of goods. Half the buses in Dar es Salaam and abo

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Footnote 16 Cont.
the period. See Agenda, op.cit., Vol.II, p.101. While these studies are supposed to take into account fringe and non-monetary benefits, they may not do so completely, and there is some evidence that parastatals provide higher level personnel with more of such benefits--for example, housing--than do private firms. But this qualification does not apply to less senior staff who receive few such benefits.

Transport Corporation are out of service. Crop authorities were abolished because of their failure to provide farmers with the services they were created to deliver. The railroad can meet only 10 to 15 percent of the demand for freight services. Such examples can be multiplied manyfold.

1.25 Finally, the parastatal sector is inefficient, consuming more resources than necessary to produce the output it creates. Evidence for this statement comes from financial data, economic rates of return and partial indicators of efficiency. Financial data are the most widely available but only indicate ability of a firm to take advantage of the existing economic situation which includes price controls, subsidies, protection from imports and so on; they do not indicate whether a firm is profitable to the nation as a whole--for example, how well it would do if it were not subsidized or protected at the expense of other parts of the economy. For that, one needs economic rates of return, that is, returns based on prices likely to exist in open, competitive markets. Only one recent study using such methods is available at the present time, and it is limited to data on firms in the manufacturing sector in 1984. Partial indicators of efficiency, for example, labor productivity and incremental capital-output ratios, can be used as rough indicators for other sectors and to support other findings, but can be misleading if used in isolation. All three sources of information support the general contention that the parastatal sector is inefficient, both by absolute standards and as compared to the private sector.

1.26. Financial Performance. Given the preferential treatment most parastatals enjoy, one would expect them to earn reasonably good financial returns. Some do. But many do not. The most comprehensive data on such returns comes from the Tanzania Audit Corporation (TAC) which produces aggregated data for its clients with acceptable accounts. As Table 1.7 indicates, aggregate profits for this group of companies was negative in 1984. Even in 1985 when profits were positive, though still small, nearly half of the 354 companies audited made losses. Highly unprofitable parastatals include not only the Crop Authorities, but important commercially oriented enterprises such as Steel Rolling Mills Ltd., Kilimanjaro Textile Corporation Ltd., Mwanza Textiles Ltd., and transport monopolies such as the Tanzania Railways Corporation. Enterprises with profits exceeding TSh 5 million a year include the National Bank of Commerce and the Bank of Tanzania, the Tanzania Cigarette Company and the Tanzania Breweries Ltd. A full list of firms with losses or profits over TSh. 5 million is shown in Appendix G. In its Annual Report for 1985, the TAC commented on this performance as follows: "...when consideration is given to total investment in the parastatal sector, the amount of profit earned is far from satisfactory. When it is further considered that the biggest loss makers are in the sectors of industries and trade, agriculture and livestock and communications, where the largest investments are made, the position is further tarnished. In the absence of set rates of return on investment, many parastatals seem content when they just barely break even."

Table 1.7

TANZANIA: FINANCIAL PERFORMANCE OF PARASTATALS AUDITED BY TANZANIA AUDIT CORPORATION, 1983-85

	1983		1984		1985	
	Numbers	Profit Before Tax (TSh. Million)	Number	Profit Before Tax (TSh. Million)	Number	Profit Before Tax (TSh. Million)
Parastatals with Profits	196	3,876.5	213	2,911.9	189	3,811.4
Parastatals with Losses	165	(910.2)	171	(2,994.4)	165	(1,853.0)
Net Profit	361	2966.3	384	(82.5)	354	1958.4

Source: Tanzania Audit Corporation Annual Reports

1.27. While there are large variations in sector and individual company experiences, financial performance on average appears to have worsened during the past decade. Given the changes currently under way in the macroeconomic environment--in particular the elimination of subsidies, devaluation, increasing interest rates, reduction in the number of goods subject to price controls and deconfinement--this deterioration is likely to continue but at a faster pace for a while (see discussion in Chapter 2). The variance in experience, however, is also likely to increase: parastatals most heavily dependent on imports are likely to be hit the hardest while others more able to export, plus firms related to the agricultural sector, are likely to find their financial performance improving. Appendix A8 provides details on financial performance over time for selected groups of, as well as individual, companies.

1.28. Economic Efficiency. The most up-to-date and comprehensive information on economic efficiency--and one that permits a comparison of the public and the private sectors--comes from a recently completed study of the industrial sector.17/ For present purposes, the most relevant findings from that study are reflected in Table 1.8. Fifty four percent of all the

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17/ Agenda, op. cit., especially Vol. I, p.43ff and Table 16, Vol.II, p.139. This study surveyed 118 product lines in the industrial sector, 30 percent of which (on a weighted basis) are in the parastatal sector.

parastatal activities in the industrial sector are extremely unproductive in that they produce negative value added when all inputs are valued at world market prices. This compares to a figure of 11 percent for the private sector. On the same basis, only 18 percent of these parastatal activities are efficient in the sense that they use less inputs than the value added of their output, compared to 43 percent of the private sector industrial activities.

Table 1.8 PERCENTAGE OF PRODUCTION LINES OPERATING AT DIFFERENT LEVELS OF EFFICIENCY, BY OWNERSHIP, 1985

A. Percent of All Activities

	Domestic Resource Cost /a			
Sector	Less than One	Greater than than One /b	Infinity (Neg. value added)	Total
Public	14	16	35	
Private	10	21	4	
Total	24	37	39	100

B. Percent of Sector

	Domestic Resource Cost /a			
Sector	Less than One	Greater than than One /b	Infinity (Neg. value added)	Total
Public	22	24	54	100
Private	28	61	11	100
Total	23	27	50	100

/a Short-run Domestic Resource Cost: cost of domestic factors (labor and capital assumed at sunk cost, shadow priced) for generating one unit of world priced value added calculated at actual levels of capacity utilization. Calculations made at capacity rates attainable if foreign exchange for recurrent inputs were not a constraint are not significantly different.

/b Excluding infinity.

Source: Agenda, op. cit., Vol. II, Table 13, p. 136.

The most likely explanation for these findings is that parastatals enjoy preferential treatment and "bail-out" privileges that permit them to remain

in business longer than can private firms when they are operating inefficiently.

1.29. Partial Indicators of Efficiency. Tables 1.9 and 1.10 provide summary indicators permitting comparisons of public and private firms in the industrial sector during the period 1975-79 and on sisal estates over the period 1981-84. In both cases, output per worker (or per manhour) is roughly half that of private firms. In the industrial sector, this occurs despite the fact that output per unit of capital employed is about the same. Taken together, these two findings suggest the existence of substantial redundant labor in the parastatal sector. It is also interesting to note in Table 1.9 that manhours worked per employee are less even though labor costs per employee are more amongst public firms in the industrial sector.18/ Moreover, amongst sisal estates, parastatals receive a lower price for their output, probably because quality of their product is lower. Appendix A3 provides information suggesting that sales in constant prices per employee of parastatal firms in nearly every sector have declined over the period 1974-84, on average by 30 percent. Additional evidence to this effect is provided in Table 1.11 which separates out the district development corporations, which perform very poorly, and financial and other service parastatals, which perform reasonably well, from all others in a sample of over 100 public enterprises.19/

Table 1.9

AVERAGE INDICATORS OF PERFORMANCE PUBLIC AND PRIVATE INDUSTRIAL FIRMS, 1975-79

	Public	Private
Manhours per Employee	2,160.2	3,009.0
Labor Cost per Employee	13,490.0	8,355.8
Labor Cost per Manhours	5.7	2.9
Output-Labor Ratio	41,944.4	90,467.0
Output-Manhour Ratio	19.0	31.2
Labor Cost/Total Cost (%)	32.8	15.9
Capital-Labor Ratio	2.8	23.8
Capacity Utilization (5)	56.2	50.2
Output-Capital Ratio	1.4	1.4
Size of Firm - Employee per Unit	972.4	81.4
Capital per Unit (at 1000 per unit)	25,782.0	16,248.1

Source: Semboja, op. cit.

18/ These figures could be misleading. Large firms typically pay more than small firms, and as Table 1.9 indicates, the public firms are on average much larger than the private firms in the sample.

19/ The District Development Corporations have apparently never performed well. See a paper by H. P. B. Moshi (Financial Performance of Public Corporations: the Case of District Development Corporations, Economic Research Bureau, 1980) which indicates that these parastatals incurred sizeable losses throughout the mid to late 70s.

Table 1.10

TANZANIA - AVERAGE INDICATORS OF PERFORMANCE
SISAL SECTOR, PUBLIC AND PRIVATE FIRMS 1981-84

	Public	Private
1. Labor Cost per Employee	6,958.3	14,089.5
2. Labor Cost per Manhours	2.8	5.9
3. Output Labor Ratio	16,049.3	35,785.3
4. (a) Physical Output per Manhour	2.4	2.8
(b) Output in Shillings per Manhour	6.8	15.3
5. Price of Fiber per Ton	4,674.3	5,152.3
6. Ratio of Variable Cost to Value of Output	1.1	0.7
7. Capacity Utilization	0.2	0.4

Source: Semboja, op. cit.

Table 1.11

INDICATORS OF PARASTATAL PERFORMANCE BY SELECTED GROUPINGS, 1986

Indicator	Industry 1 - 4	5	6
1. Value of Production / No. of Employees	874,000	83,000	1,208,000
Size of Sample, n	44	8	8
2. Wage Bill / No. of Employees	33,000	19,000	37,000
n	82	17	41
3. Profits/ Total Assets	0.307	0.175	0.435
n	35	5	5
4. Profits / Fixed Assets	0.304	0.175	0.435
n	33	5	5
5. Revenue / Total Assets	3.225	3.064	2.792
n	72	16	34
6. Revenue / Fixed Assets	51.539	40.781	6.657
n	70	17	37
7. Revenue / Total Expenses	2.289	1.466	1.670
n	78	17	44

Notes: Industries 1 - 6 refer to manufacturing, agriculture, trade, transport, District Development Cooperatives, and Services, respectively.

Source: Joseph J. Semboja, The Parastatal Study: Analysis of the Qualitative and Scopo Data, University of Dar es Salaam, July 1987.

CHAPTER TWO

FACTORS DETERMINING PARASTATAL PERFORMANCE

2.1 Chapter 1 indicates parastatals have contributed far less to the achievement of economic and social goals than was expected of them at the time of the Arusha Declaration and what they have accomplished was sometimes achieved at high cost. A wide variety of factors have been put forward to explain these disappointing results. Some are common to all economic activities in Tanzania and help explain the less than hoped for results obtained from private firms as well. Others, while specific to the parastatal sector, are at a level of generality that is not operationally useful. This chapter sorts through these various explanatory factors and focuses on those that appear to have the most implications for policy.

Factors Affecting All Economic Activities

2.2 A variety of external factors have contributed to the generally poor performance of the economy during the last decade. These include deterioration in the terms of trade since the coffee boom of 1978, droughts that periodically force foreign exchange to be allocated for the importation of food, the war with Uganda in 1979, the breakup of the East African Community which required extraordinary budgetary and foreign exchange expenditures for a time, and declining external assistance since 1978 in both nominal and real terms (though on a per capita basis it is still amongst the highest in the world).

2.3 But of at least equal significance has been the overall policy environment within which economic activities have taken place. The Government has relied primarily on centralized administrative regulations to control the economy. Foreign exchange, imports and credit have been rationed; the exchange rate, interest rates and most commodity prices have been set administratively; and a number of economic activities--banking and insurance, and trade, transport and production of certain commodities--have been reserved for and assigned to various parastatals, effectively eliminating competitive pressures for efficiency from these markets. These regulations were sometimes used to pursue inappropriate policies. For example, during much of this period, price controls and allocations of foreign exchange, credit and budgetary resources favored industry over agriculture to such a degree that (along with other factors, for example, confinement of trade to crop authorities that proved to be inefficient) the result was an actual decline in the production of export crops and hence in foreign exchange earnings on the one side and excess capacity in the industrial sector on the other. But even where the policies pursued were appropriate, the use of administrative regulations to achieve them has introduced its own problems. It has distorted incentives in such a way as to encourage investments in lines of business in which Tanzania has little or no comparative advantage and in plants that are too large, capital intensive and import dependent. It has provided protection to firms, private as well as public, that could not survive if they had to compete

with imports. It has encouraged managers to focus their efforts on seeking additional import allocations and permission to charge higher prices rather than on efforts to control costs, search for new markets and improved technologies. It has resulted in the growth of black markets, declining public revenues, and, in the end, less rather than more control over the economy as a whole. The alternative--using a minimum of direct controls (e.g., to regulate monopolies and provide temporary assistance to a few "infant industries") and a maximum of indirect controls to guide the economy--is unlikely to have been worse; at least it would not have provided a premium for illegal activities.

Factors Specific to the Parastatal Sector

2.4 In addition to these general factors, there are a wide variety of factors specific to the parastatal sector. This section discusses only those with particularly important policy implications.

2.5 Absence of Overall Strategy and Clarity on Goals. Tanzania has no up-to-date statement of general principles20/ that can serve as a guide to parastatal operations and decision-making. Nor is there good coordination between national goals and plans and parastatal goals and plans. One consequence is a series of *ad hoc* decisions that, while they benefit some special interests, are not necessarily in the national interest. All too often, for example, holding companies and ministries have conceived and planned new projects to satisfy the empire-building aspirations of their managers or the desires of foreign donors and equipment manufacturers. Such behavior is difficult to argue against in the absence of clear statements about national goals and priorities. Another consequence is that managers find it easier to justify and excuse inefficiency by pointing to noncommercial objectives that central Government decision-makers may never have sanctioned. For example, some managers appear reluctant to fire redundant workers or close uneconomic activities despite the fact that it is not the main purpose of the parastatal sector to provide employment, particularly unproductive employment.

2.6 Unclear goals and performance criteria also at times have resulted in parastatals being faced with excessive or inappropriate demands. For example, they have often been faced with interference in personnel decisions, asked to provide transport or other services without appropriate compensation, or asked to serve goals for which they were not established and equipped. An important example of the latter is the National Milling

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20/ Examples of statements of such principles from other countries are included in Appendix E.

Corporation which has faced this problem since its inception.21/ Such pressures will always be present; but they can be reduced, and parastatals' capacy to resist strengthened, by publically clarifying and restating the goals that parastatals are expected to perform.

2.7 Excessive Number of Parastatals Given the Availability of Resources and Managerial Capacity. As indicated in Chapter 1, Tanzania has more parastatals than many much larger countries with greater administrative and managerial talents at their disposal. The best evidence on this score, however, is derived from the commonly accepted observation that most parastatals are underfunded and understaffed--not in terms of numbers but in terms of skills and quality of staff, particularly at higher levels--and that many regulatory bodies, because they also are underfunded and understaffed, cannot handle the work-load required to do their job well. The tendency to spread limited resources evenly and thinly serves to keep inefficient parastatals alive but only at the expense of efficient, or potentially efficient, operations. Given the limited physical and human resources available to the Government, the general principle should be to fully fund and staff important operations and not to waste resources and quality staff on unimportant, unproductive activities.

2.8 Weak Competitive Pressures and Discriminatory Treatment. Evidence from many countries shows that a key factor in determining the efficiency and dynamism of any enterprise, public or private, is the degree of competition it faces. Public enterprises that compete with one another, with private enterprises and with imports tend to be more cost conscious and more prone to seek new markets and improve service and quality than those that do not face such challenges. In the past, competitive pressures from all three sources have been weak. Individual parastatals have been provided with exclusive markets or territories in which to operate; private firms have not been allowed to enter these areas; and imported commodities that might compete with domestic production have been deliberately restricted. Recent policy changes, in particular deconfinement of significant areas of production and trade, have permitted some changes in this situation (see Chapter 3); but the predominant characteristics of the

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21/ At different times NMC has been used as the implementing agency for Government directives not only on foodgrain prices, but on famine relief, distribution of imported food, purchases of low value cassava, millet and sorghum, purchases from GAPEX, politically determined exports and Party directives on the size of village levies. In almost all cases, the financial implications or procedures for these actions were not clearly assessed before they were adopted." Since then, considerable thought has been given to redefining NMC's role and agreement on a new reduced role consistent with financial realities may be emerging.

system are still protection and preferential treatment, especially for parastatals.

2.9 Monopolies or near-monopolies are present in most markets at all levels of business. At the national level, The National Bank of Commerce (NBC) has a virtual monopoly in providing current and savings accounts, and complaints about poor service are widespread.22/ The Cooperative Rural Development Bank (CRDB) has recently been allowed to take deposits and provide short term credit, but its interest policy is identical and it deals almost exclusively with cooperatives. There is only one firm producing cigarettes, three plants operated by the same company and General Manager, one source of insurance, one maker of aluminum cookware, three cement plants owned and operated by the same company and two large shoe manufacturers both owned by the same holding company. While there are numerous areas in which the size of the domestic market is too small, given economies of scale, to support more than one or two firms, this is not the case in any of the markets mentioned above. At the local level, particularly in rural areas, the situation is undoubtedly worse: most farmers are faced with one source of fertilizer and seed, one purchasing agent for their crops, and sometimes only one or two retail shop in which to purchase consumer goods; and the possibilities for exploitation as well as poor service are great.

2.10 Competitive pressure is reduced not only by erecting barriers to entry of competing firms and imports but by preferential treatment. Chapter 1 has already indicated that few parastatals pay dividends and many, until recently, received subsidies and could realistically expect to be bailed out by the Government if they got into serious financial trouble. Other areas of preferential treatment include allocation of credit and foreign exchange, privileged access to technical assistance and donor funding and price controls, and frequently, exemptions from paying tariffs.

2.11 While there is no official policy discriminating against private credit applicants, the effect of the credit allocation process and access to guarantees by parastatals has been to provide parastatals with most of the credit that is made available at official interest rates, which have been negative in real terms. In addition, parastatals have been able to expand credit through arrears to the banking system with greater impunity

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22/ Not only are transactions slow and communication poor, savings policy discourages resource mobilization. For example, opening a savings account requires references, withdrawals can only be made twice a week and while there is a high nominal interest rate on savings (more than 27 percent a month but still lower than the inflation rate and only posted twice a year), no interest is paid on amounts in normal savings accounts over sh. 200,000; the customer must put funds over that amount in a series of short term certificates or into fixed term deposits at lower interest. NBC pays no interest on current accounts, yet parastatals must maintain their current accounts with them. Some of these practices have been inherited from colonial times and are similar

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than can the private sector. At the end of 1986, 73 percent of Tanzania Investment Bank's (TIB) loans outstanding were accounted for by parastatals and 54 percent of these loans were in arrears, compared to 27 percent for private loans (see Table 2.1). At the same time, 65 percent of the loan portfolio of the NBC was to parastatals, versus 13 percent to the private sector and 21 percent to cooperatives (see Table 2.2). Most of its loans are to the agricultural sector and within that sector parastatals (mostly marketing boards) account for 72 percent and cooperatives for 26 percent. Although statistics on arrears with the NBC are not available, there is no reason to believe the situation is much different.

2.12 Parastatals also have privileged access to technical assistance and donor funds at concessional rates. At the same time, the private sector has difficulty attracting expatriates since they cannot offer them an arrangement whereby they can convert a portion of their salary into foreign exchange, as can parastatals directly or indirectly receiving donor funds.

2.13 The foreign exchange allocation system has also favored parastatals, the private sector having to purchase a larger fraction of its imports at parallel market rates.23/ Moreover, the fact that foreign exchange applications for dividends and interest payments overseas are given low priority makes it virtually impossible for private firms to raise foreign equity or loans.

2.14 In addition some of the goods subject to price controls are officially allocated, which typically works in favor of parastatals. Transport imports such as vehicles, tires and fuel, for example, are allocated by various groups and committees at the national and regional levels. Government and parastatals, such as the railway, TANESCO, the Tanzania Fertilizer Company, receive top priority. Thus, truck imports are allocated by the State Motor Corporation (with approval of the Prime Minister's Office) and about 65 percent of the trucks imported in 1984 and 1985 went to the public sector even though about 70 percent of trucking services are provided by the private sector. In addition, parastatals receive the bulk of vehicles imported under aid projects; for example, 100 trucks were given to the Tanzanian Cotton Authority by the Dutch Government in 1984.

2.15 Parastatals have major disadvantages in facing competition as well. Because of appointment proceedures and political considerations, their boards have less flexibility in selecting, or recommending the selection of, managers. Parastatal managers have less flexibility

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to practices in other countries; they persist because of lack of competition and inherited regulations that have not been updated.

23/ The reason for this, however, is that parastatals are more likely to be found in high priority areas (which the private sector cannot enter);
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Table 2.1
TANZANIA: TANZANIA INVESTMENT BANK
T I B
SUMMARY OF ARREARS AT 31 DECEMBER, 1988

	PARASTATAL SECTOR				PRIVATE SECTOR				TOTAL		
	AMOUNT OUT STANDING TSHS '000	AMOUNT IN ARREARS TSHS '000	ARREARS AS % OF AMOUNT OUT STANDING	ARREARS AS % OF TOTAL ARREARS UNDER PORTFOLIO	AMOUNT OUT-STAND-ING TSHS '000	AMOUNT IN ARREARS TSHS' '000	ARREARS AS % OF AMOUNT OUT-STANDING	ARREARS AS % OF TOTAL ARREARS UNDER PORTFOLIO	AMOUNT OUT STAND-ING TSHS '000	AMOUNT IN ARREARS TSHS '000	ARREARS AS % OF AMOUNT OUT STAND-ING
1. Manufacturing	1576493	636967	40.40	39.79	927876	198568	21.40	10.53	2504369	835535	33.36
2. Tourism and Hotels	299694	160814	75.44	9.59	22813	3992	17.50	0.21	282507	164806	70.40
3. Agriculture and Agro-Processing	525377	455409	86.68	24.16	2471	--	--	---	527848	455409	86.28
4. Mining	254922	60635	23.72	3.28	66814	63558	94.65	3.36	322736	124293	38.51
5. Forestry and Wood	80114	37869	47.27	2.01	15622	--	--	--	95736	37869	39.56
6. Fishing and Others	246227	193580	78.62	10.27	119822	53830	44.92	2.86	366049	247410	67.59
TOTAL	2924827	1545574	53.53	83.04	1155418	319748	27.67	16.96	4080245	1865322	45.71

Table 2.2
TANZANIA: NATIONAL BANK OF COMMERCE CREDIT PLAN SUMMARY: LENDING BY ECONOMIC SECTORS, AT DECEMBER 31, 1988

(T Shillings, Thousands)

	AGRICULTURE		COMMERCIAL		INDUSTRIAL		TOTAL	
	VALUE OF LOANS SANCTIONED	% OF LOANS SANCTIONED	VALUE OF LOANS SANCTIONED	% OF LOANS SANCTIONED	VALUE OF LOANS SANCTIONED	% OF LOANS SANCTIONED	VALUE OF LOANS SANCTIONED	% OF LOANS SANCTIONED
PUBLIC SECTOR								
- PARASTATALS	20,565,382	71.6	1,494,922	52.5	1,340,721	30.4	23,401,025	65.0
- CENTRAL GOV'T	186,093	0.5	6,010	0.2	175	-	192,278	0.5
- LOCAL GOV'T	8,505	-	1,194	0.1	1,150	0.1	8,849	0.1
- COOPERATIVES	7,590,982	26.4	26,279	0.9	12,512	0.2	7,620,773	21.2
- OTHERS	589	-	39,128	1.4	971	-	40,688	0.1
PRIVATE SECTOR	378,916	1.5	1,278,901	44.9	3,056,081	69.3	4,713,898	13.1
TOTAL	28,725,467	100.0	2,848,434	100.0	4,411,610	100.0	35,983,511	100.0

Source: National Bank of Commerce

than do private managers to cut costs, for example, by closing uneconomic lines, laying off staff, changing suppliers, and cutting down the various services they provide to staff (clinics, transport, food services, etc.). They also have less flexibility in determining how their revenues will be used--for example, it is mandatory that 20 percent of after-tax profits be set aside for staff housing. Parastatals are also at a disadvantage in attracting high-calibre, skilled personnel since the salaries and benefits they can offer are typically lower than in the private sector. Other compensations are present in the public sector--for example, greater job security and more opportunity to pursue private interests (for example, taking on secondary jobs during work hours, sometimes using company equipment)--but they work against the selection of staff who put the interest of the organization high on their priority list. Parastatals must comply with price controls and tax laws which private firms often skirt and they must sell certain products through the RTCs (fertilizers, farm tools, sugar, common cloth, corrugated iron sheets) at lower prices than they could receive elsewhere. Parastatals are, to a greater extent than private firms, at the mercy of private suppliers who overcharge and employees who accept kickbacks. Their greater vulnerability results from two factors: less pressure on managers and boards to be vigilant in guarding against such practices, and less capacity to do so because of the generally large size and complexity of the organization. Furthermore, because of past protection, most parastatals do not know how to compete successfully; it will take a while for them to develop the necessary skills in corporate planning, financial management, marketing, and cost control and to begin applying them aggressively.

2.16 Parastatals have recently found themselves saddled with another disadvantage compared to the private sector, this one a result of their earlier advantage in obtaining foreign loans. Since they are generally required to assume the foreign exchange risk of loans passed on to them by Government, recent devaluations have hit firms with large foreign debt and little chance to increase prices (e.g., public utilities like railways and TANESCO and manufacturing firms facing competition from imports) very hard. This disadvantage is less severe for parastatals than for the private sector since, as indicated above, they more frequently have their debts forgiven or are allowed to be in arrears. But the situation is piling up potentially severe problems for the financial system. While arrears and insolvency problems have been growing for some time, they have been dramatically worsened by the 1986 and 1987 devaluations. Arrears to the TIB, for example, have increased from TSh. 469 million in December 1985 to TSh. 1.9 billion in December 1986 and TSh. 2.4 billion by June 1987. Some analysts, even before the 1986 and 1987 devaluations which have brought the problems of excessive foreign borrowings into the open, believed that these problems were beginning to threaten the viability of the financial system.24/

2.17 Absence of a Regulatory System that Rewards and Punishes on the Basis of Performance. In an enterprise in which board members and managers have ownership shares, pressures for high quality performance are more or less automatic. In the public sector where ownership and

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parastatals in low priority areas find it equally difficult to obtain foreign exchange from official sources. In addition to being in a high priority area, a firm must also have the local currency to cover the proposed purchase of foreign exchange. This factor adds another dimension since at times a private firm may find it easier than a public firm to put up the cover.

management functions are quite separate, an administrative system that holds managers accountable for performance while giving them the autonomy necessary to perform must be substituted. The regulatory system governing Tanzanian parastatals does neither very well.

2.18 This regulatory system consists of seven overlapping layers of control. (1) Managers of operating companies are responsible for day-to-day decisions but in practice have to obtain external approvals before acting on many issues. (2) Boards of Directors (or Management Committees in the case of subsidiaries of holding companies) are responsible for reviewing corporate plans, accounts, budgets and operating results. Boards of important companies perform these functions quite well; many others are weak, do not meet regularly or discuss performance-related issues, instead focusing on minor personnel and administrative issues. (3) Sector holding corporations are expected to "manage the affairs" of their subsidiaries, "take actions to avert and minimize losses" and to expand business by new projects. Their performance is mixed, greatly dependent on the abilities of their General Managers and staff: some provide sorely needed expertise and guidance to their subsidiaries while others interfere in counterproductive ways; others have focused on empire building through the establishment of additional subsidiaries regardless of national priorities; still others are passive, content to collect substantial management fees which might be better used to support current operations. (4) Each holding corporation has a Board of Directors that functions for the holding company in a manner similar to that of an operating company. (5) Parent ministries are supposed to approve corporate plans, budgets and capital expenditures and to supervise performance and take corrective action; in practice, few have the expertise to do so in an informed manner. (6) The Ministry of Finance, Economic Affairs and Planning is responsible for approving investment projects and annual budget plans, providing budgetary support and supervising and assessing financial performance; in practice, it does little other than providing budgetary support on current and capital accounts. (7) The ultimate responsibility for the whole system lies with the President, Cabinet and National Assembly. While they should focus on general guidelines and overall strategic issues, they often intervene in lower-level decision making.

2.19 In addition to this hierarchical structure, there is an array of special agencies to implement specific regulations. For example, the Standing Committee on Parastatal Organisations (SCOPO) establishes organizational structures, sets salary and benefit levels for posts within these structures and supervises the provision of budgetary awards for these levels. The effect of its work, plus the award structure, is to compress salary and benefit packages into a narrow range and limit the freedom of parastatals to compete with the private sector for high quality staff. The Permanent Labour Tribunal administers a system of (across-the-board) bonuses, (provided for in the National Policy on Productivity, Incomes and Prices), to be awarded if certain conditions are met; but as Appendix B explains, these conditions are seldom met and few firms even bother applying for the awards.

2.20 Appendix C provides a detailed picture of the regulatory system and how it works. The picture that emerges is a complex system with overlapping, poorly delineated, responsibilities. It is not clear, for example, which of the seven control layers described above decides whether parastatal performance is satisfactory and which has the authority to take remedial action. The result is a lengthy decision-making process with a tendency on everyone's part to avoid responsibility. At the same time, many of these agencies have the power to interfere in daily operating decisions, with debilitating effects on managers who are not in a position to effectively resist. Overall, there is a tendency to control and regulate procedures and processes rather than final performance, with the result that managers have neither the authority nor the incentive they need to search stridently for better operating results.

2.21 Weak Information and Accounting Systems. Tanzania has a well-developed set of procedural requirements designed to ensure the timely production of financial data and its transmission to the board, shareholders and regulatory bodies. Parastatal managers are required to present regular accounts and annual budgets of both recurrent and capital revenues and expenditures on a monthly, quarterly and annual basis, to the Board or Management Committee. These accounts and budgets are supposed to be presented to and reviewed by the holding company and parent ministry involved, the Treasury Registrar, and DEVPLAN. Annual accounts are required by statute to be submitted to the Tanzania Audit Corporation (TAC). The Parastatal Organisation Committee (POC) of the National Assembly holds half-yearly meetings with selected parastatals to scrutinize financial performance and recommends that the Ministry of Finance fine executives that fail to fulfill their obligations. The Party Standing Committee on Parastatal Supervision and Development also supervises and recommends actions to the Government. Finally, the banking system should routinely insist on detailed cash flow estimates and audited accounts before funding overdrafts or loans. In practice, these procedures are not always followed. Boards do not always receive accounts and budgets before critical decisions are made; review bodies do not always review these documents even when available; and banks sometimes provide overdrafts and loans even in the absence of audited accounts and detailed cash-flow statements.

2.22 The fundamental problem is the chronic failure to produce acceptable accounts. Tables 2.3 and 2.4 provide an indication of the extent of this problem. In 1985/86 over 100 parastatals were delinquent by more than two years in submitting accounts to the TAC for audit, and of those that were submitted, only 37 percent received clear reports. During the first half of 1986/87, 95 firms were delinquent by more than two years and 50 percent received clear reports. This situation appears to be the result of five factors.

(i) Ineffective Management and Management Information Systems. There is a high correlation between the quality of management and the quality of accounting information in an enterprise. Where strong management teams exist (e.g., Tanzania Cigarette

Company, Ubongo Farm Implements, National Transport Company) financial systems are well established and accounts are seldom in arrears. Where they do not, accounts are more likely to be defective in one or another way. All too frequently, management information systems at the level of the firm are rudimentary and, where they exist, the shortage of trained accounting staff and managers capable of analyzing the data often mitigate against effective implementation of the system. Standard costing methods and budgetary control and monitoring procedures are absent in many organisations. Indeed, few parastatals have proper internal audit departments that monitor and control independently from their finance departments.25/ Ideally, an internal audit department should report directly to the chief executive of the company on such issues as lack of accountability, unreliable accounting information, non-production of accounts and abuses of financial resources.

(ii) Poor External Controls. The incentive to produce timely and accurate accounts is low if no adverse consequences flow from the failure to do so. This appears to be the case. The Treasury Registrar was established to perform the role of Government custodian of parastatals' share certificates and to undertake financial reviews of the parastatals and monitor their investment and budget activities. Similarly, the parent ministries were to establish parastatal project monitoring units in order to oversee the financial and economic affairs of their respective public enterprises. In practice, both the Treasury Registrar and the parent ministries have often been unable to fulfill their obligations with the result that most parastatals receive little effective or constructive external guidance. In the past, enterprises sometimes failed to honor requests to attend meetings of the Parliamentary POC or to provide information requested, despite the threat of being fined. There is some indication that this situation is changing, that the Committee is becoming more active and is being taken more seriously.

24/ See Bartholomew Nyagetara, "The Demand for Commercial Credit in Tanzania, 1966-82," Economic Research Bureau.

25/ Reginald A. Mengi, "Accounting Information Systems and Controls for Parastatal Organizations", October, 1985.

Table 2.3
TANZANIA: PARASTATALS WITH ACCOUNTS OVERDUE BY MORE THAN TWO YEARS

Year	Number	Percent of Total
1981/2	83	29.0
1982/3	107	28.0
1983/4	105	25.0
1984/5	100	24.0
1985/6	109	28.0
1986/87 (first half)	95	--

* Source: Tanzania Audit Corporation Annual Reports.

Table 2.4
TANZANIA AUDIT CORPORATION: PARASTATALS AUDIT RESULTS
JANUARY 1981 - DECEMBER 1986

	1981/2		1982/3		1983/4		1984/5		1985/6		1986/7 6 months	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
A/Cs given Clean Reports	85	30.1	108	28.7	143	34.7	168	39.8	146	37.1	82	50.0
A/Cs given Qualified Reports	138	48.9	126	33.5	156	37.9	156	37.0	150	38.1	59	36.0
A/Cs with Disclaimers	16	5.8	115	30.6	27	6.5	14	3.3	75	19.0	22	13.4
A/Cs with Adverse Opinions	43	15.2	27	7.2	86	20.9	84	19.9	23	5.8	1	0.6
Total No. of A/Cs Audited	282	100.0	376	100.0	412	100.0	422	100.0	394	100.0	164	100.0

Sources: Tanzania Audit Corporation Annual Reports 1981-85

(iii) Shortages of Trained Accountants. The paucity of staff with trained accounting skills in Tanzania parastatals is a significant bottleneck in any effort to tackle accounting deficiencies. Table 2.5 demonstrates the limited number of authorized auditors (145) and accountants (382) in an economy with 425 enterprises in the parastatal sector alone. Despite a significant training program by the National Board of Accountants & Auditors (NBAA) and pressure from the NBAA to tackle the problem of late accounts and to upgrade the accountancy profession in Tanzania, there are an estimated 250 vacancies for qualified accountants in the parastatal sector and widespread shortages in local and central government agencies.

Table 2.5
TANZANIA: ACCOUNTANCY SKILLS AND VACANCIES, 1986

Category of Skill	Number
Authorized Auditors	145 (46 expatriate)
Authorized Accountants	382 (94 expatriate)
Semi-Qualified Accountants	1465
Accounting Students:	
National Board of Accountants & Auditors	1515
Institute of Development Management	205
Dar es Salaam School of Accountancy	484
University of Dar es Salaam	136
Nyegezi Social Training Institute	90
Unfilled Vacancies for Qualified Accountants:	
Parastatal Sector	250
Local Government Sector	150
Cooperative Sector	150
Central Government	100
Private Sector	N.A.

Source: National Board of Accountants and Auditors

(iv) Inability to Compete with the Private Sector. The parastatal sector has trouble competing with the private sector in terms of wages. The consequence has been a continual loss of accountants to the private sector once obligatory periods of employment after training have been satisfied. Some observers believe this is a major factor explaining the high vacancy rate for accountants in among parastatals.

(v) Deliberate Abuse. While it is difficult to prove that a correlation exists between misappropriation of funds and poor financial records, there have been a sufficient number of abuses in recent years to warrant concern. Clearly, it is in the interest of someone who wishes to misuse funds to hide the fact by not producing financial records. Clearly also, managers should be able to produce some relevant reports even without trained accountants and sophisticated information systems. If managers make little or no effort to do so, it reasonable to question their motives.

2.23 Employment and Compensation Policies. Inefficiency and low productivity in the parastatal sector can be traced in part to personnel problems, among which three are most important in the present context: shortage of high quality skilled personnel to serve as managers, board members and senior staff, overstaffing at lower levels and poor motivation at all levels. These three problems, in turn, are largely explained by employment and compensation policies that have restricted parastatal autonomy in hiring, firing and setting wages.

2.24 Shortages of skilled manpower in Tanzania is a problem inherited from colonial days. But complaints about such shortages and poor quality of existing staff are far greater in the public than in the private sector. Three factors appear to account for this. The first is lack of adequate incentives in the public sector--insufficient remuneration, little association between remuneration and performance, and incentives that are distorted by the administrative and regulatory system. If these problems could be corrected, many poor performers would begin changing their behavior, and those that did not would be forced to move on.26/

2.25 Parastatal employees fall under personnel systems that are similar to the civil service. These systems are characterized by uniform, personnel regulations, high security of employment, inadequate remuneration, promotion on the basis of seniority rather than performance and lack of flexibility in dealing with individual cases. As a consequence, managers are unable to quickly and easily adapt the size and skills of their labor force to changing markets, technology and skill needs.

2.26 Recruitment is overly centralized, at higher levels because the President makes the final decision on chief executives for holding companies and most independent companies, and at middle levels because, given shortages and difficulties in competing with the private sector, managers are forced to depend on the new graduates who are allocated by the High Level Manpower Allocation and Training Committee of the Ministry of Labor and Manpower Development. Given the large number of appointments that have to be made and the absence of adequate information and manpower planning systems, the result is a decision making process that is slow and that frequently seems to come to suboptimal assignments. In addition, recruitment frequently occurs by secondment from the civil service, a practice that places individuals who are not trained as entrepreneurs in a commercial environment without the penalties for poor performance that are typical of that environment.

2.27 Compensation policy is also centralized, nearly uniform across parastatals, and provides little or no room for parastatals to compete with the private sector, particularly at middle and higher levels. Since the early 1970s wages and salaries have failed to keep up with inflation to such an extent that in 1985 top salaries were only 20 percent, and minimum wages only 30 percent, of the 1975 level in real terms (see Table 1.6).

26/ It is interesting to note that a recent survey indicates that parastatal managers typically have more formal and on-the-job training than their private counterparts and roughly equal years of experience. See Joseph J. Semboja, The Parastatal Study: Analysis of Qualitative and SCOPO Data, Dar es Salaam, July 1987. In organizations of the same size and complexity, therefore, these managers should be able to perform at least as well. The most likely explanation for the fact that they do not is absence of appropriate incentives. However, parastatal enterprises in Tanzania are probably larger and more complex, on average, than private enterprises.

The result has been poor motivation, indiscipline, moonlighting, and low productivity. In addition, over time, wage scales, particularly after-tax differentials, have been severely compressed, reducing incentives for advancement. This picture must be modified to some extent by taking into account fringe benefits the distribution of which tends to be highly skewed; but such benefits, which now constitute nearly half of the compensation package for higher level staff, has its own set of problems (see Appendix B, especially paragraph 45).

2.28 The second factor, which helps explain shortages in general as well as greater shortages in the parastatal sector, is inherent in the decision taken in the mid-sixties to utilize large-scale centrally controlled organizations to operate the bulk of the economy. These organizations require more formally trained manpower than do small-scale decentralized operations. A case in point is rural marketing and distribution. Large, complex organizations in these areas require managers with substantial formal and specialized training; small, decentralized organizations undertaking the same functions can rely on individuals with skills little different from those traditionally involved in farming and petty trading, or skills which can easily be learned on the job.

2.29 The third--and related--factor has been a tendency to underestimate the skill requirements needed to efficiently manage large scale complex operations. In some cases, too few skilled posts have been allocated to projects or enterprises; in others projects have been started without any prior investigation to ensure that skilled staff can be found to manage the operation.27/

2.30 Overstaffing at lower levels results from some of these same factors; but in addition it is influenced by legal and regulatory procedures that make it far easier to hire than to fire workers. In the past, these procedures have been used to protect workers when production was low. Currently, the mood in the country is supportive of cost-cutting and managers are finding it somewhat easier to obtain the necessary approvals. Nevertheless, the procedures involved are time-consuming and difficult.

2.31 These issues are elaborated in Appendix B which describes the existing situation, reviews past and existing government policies and discusses implications of these policies.

27/ Examples from the agricultural sector can be found in World Bank, Tanzania Agricultural Sector Report (August 19, 1983), Chapters 3 and 7 and Draft Background Papers III and VI.

CHAPTER THREE

TOWARDS A REFORM PROGRAM

3.1 As noted at the outset, the Government has been aware of these problems for some time and has initiated a number of efforts to solve them. This chapter discusses these efforts, what they have accomplished and what additional steps are necessary.

Past Efforts at Reform

3.2 Until quite recently, nearly all efforts to improve parastatal performance have focused on strengthening Government supervision and control. In 1967, the Government established SCOPO and the Tanzania Audit Corporation. In 1969, the National Assembly passed the Public Corporations Act which led to the establishment of sector holding companies and which spelled out the powers and responsibilities of various agencies dealing with parastatals. In 1974, in an effort to increase the powers of the Ministry of Finance, the post of Commissioner for Public Investment was established and combined with the functions of the Treasury Registrar. In 1975 an Inspection, Supervision and Control Section was added and the 1983 amendments to the Public Corporations Act and the Treasury Registrar Ordinance further strengthened the powers of the Commissioner's office.

3.3 In 1979 a technical assistance team from the Statsforetag AB, the principal holding company for public enterprises in Sweden, was posted in the office of the Commissioner for Public Investment. Between 1979 and 1983, more than 10 years of resident expertise was provided and a variety of technical papers and analyses developed. The team's final report presented a careful analysis of the parastatal sector and concluded that disappointing performance was caused by insufficient capital structure, inputs and infrastructure; bad management due to unqualified and inexperienced board members and senior staff; fraud, theft, negligence and lack of incentives; and insufficient monitoring and control by Government. Despite the perceived need to reduce the number of parties that intervene in parastatal affairs and to conserve on skilled manpower to handle regulatory functions, the report recommended against establishment of a central body to manage all parastatal affairs, similar to the National Enterprise Board of the United Kingdom as it existed in 1983; that approach was believed to be totally unworkable given the size and complexity of the parastatal sector. Instead, it endorsed the 1983 efforts to strengthen the office of the Commissioner for Public Investment, recommended that the number of ministries charged with supervising parastatals be reduced and technical assistance be provided to the others, and proposed the creation of a detailed

reporting/information system, specifying the type of information (and timing of submissions) that each unit in the hierarchy should produce. These recommendations were never formally reviewed or discussed, despite the efforts of the then-Commissioner of Public Investments to use the report as a basis for the revision of his office's oversight role.

3.4 In the period 1981-1983, several other reviews of parastatal operations in general, and of key sectors such as agriculture, were undertaken. All agreed that the management/supervision scene was cluttered and chaotic, with too many agencies involved, posing too much of an information burden on weak parastatal management and equally weak reviewing bodies. The reports further concurred that management autonomy was lacking in areas where decisions should preferably be made at the level of the firm - e.g., pricing, hiring and firing, incentives and sanctions for the workforce and middle management, cutting uneconomic services, closing consistently money-losing plants or services. But the reviews also stressed that while supervisory bodies frequently acted to constrain managerial autonomy in areas where it was needed, they at the same time failed to exercise necessary oversight functions, particularly in the realm of financial control, and analysis of parastatal investments.

3.5 As a result of these reviews--plus increasingly visible poor parastatal performance--Government undertook two actions. As indicated above, it revised the Public Corporations Act to strengthen the supervisory role and powers of the Office of the Commissioner for Public Investments; and it created a special commission--the Hamad Commission--to review parastatal performance, to examine the reasons for the sector's lack of efficiency and productivity, and to propose remedies. The enlargement of the legal powers of the CPI has had no discernible impact on either the performance of that body or the parastatals in general. The Hamad Commission was a different matter in that a number of its recommendations were implemented and have had at least some effect.

(i) The Commission recommended that with the revival of agricultural cooperatives, the all-purpose crop authorities were no longer needed and should be replaced by marketing boards. This recommendation was carried out.

(ii) A recommendation was made to close a few parastatals that were performing particularly poorly, to merge several others and to absorb the functions of several others into normal ministerial operations. Some of these recommendations were implemented. A Livestock Development Authority and two of its subsidiaries were eliminated, one transport and several trading firms were dismantled, several firms were restructured and a few mergers took place.

(iii) The Commission recommended the removal of Members of Parliament from Boards of Directors, the limitation of boards to 10 members, and the appointment to boards of technical experts, main users of the products or services produced, and representatives of major creditors. The first recommendation was enacted in 1985; the second and third are being implemented slowly, with a few exceptions only as fast as vacancies occur.

(iv) The Commission suggested that boards be more actively involved in the choice of General Managers, by advertising vacancies, interviewing candidates and proposing a short list of names to the President. This procedure is being adopted.

(v) Cost-cutting measures were a priority item for the Commission; managers of the parastatals responded by reducing the number employed in the sector by about 20,000 between 1984 and 1986 (though an undetermined percentage of these people probably were shifted to other posts in the public sector); accounting improvements were begun, and a host of waste reduction steps were taken.

3.6 As a follow-up to the Hamad Commission, a Presidential Implementation Team was formed in 1984, with a mandate to suggest further cost-cutting and cost-controlling measures. Over a three year period the PIT has made a number of suggestions for improving cost consciousness in parastatals. But it also has examined the issue of performance monitoring and supervision, and in 1987 submitted to Cabinet a set of recommendations on these matters. In essence, the PIT sees lack of managerial autonomy as the principal problem, compounded by the ineffectiveness of the supervision agencies. Unlike parastatal managers who attribute poor performance to lack of capital and other resources, the PIT blames unclear or incorrect objectives and lack of incentives. The PIT recommends that profitability be established as a primary goal of parastatals, that managers be given latitude on who they can hire and on how much they can pay, and that decision-makers in Government scrutinize each and every parastatal to determine its utility to the country--and to take corrective action including dismantlement if necessary. Finally, the PIT proposes that a new agency be formed to advise Government on parastatal policy, to analyze problem firms and propose solutions.

3.7 Finally, there is the Nsekela Commission report of 1987. While the bulk of this report dealt with remuneration of civil service and parastatal employees, it also dealt with the sector's poor performance and the institutional factors contributing to that performance. In line with all other analyses, the Nsekela Commission attributes the sector's admitted ineffectiveness to poor initial investment decisions, unclear objectives, weak management, insufficient autonomy of management, and a

set of macro issues outside the control or direction of enterprise management. It recommends: a more careful search for chief executives, the involvement of the Board of Directors in their choice, better boards, more resources devoted to management training, and the creation of a new, centrally located policy making/supervisory body. The new body should take over some of the responsibilities of SCOPO (which would disappear), be staffed by high-level persons, be chaired by a personage of cabinet rank, and be assisted by a powerful secretariat, headed by an outstanding official. Both sets of recommendations, those of the PIT and those of the Nsekela Commission, are under review at the present time.

3.8 All these efforts to improve parastatal performance, particularly those involving changes in the regulatory environment, have had only marginal impacts. Few of the proposals have been implemented and those that have, have not gone far enough to have lasting, significant effects. On the other hand, a number of other steps which directly or indirectly change the policy environment facing parastatals have recently been taken that <u>are</u> having significant effects.

3.9 Most important is the Economic Recovery Program (ERP) introduced in June, 1986. Among other things, this program includes the following changes in economic policy:

> The shilling has been devalued and the Government is committed to further devaluation to achieve equilibrium by mid-1988. As these changes occur the Government plans to shift from reliance on administrative mechanisms to tariffs as the principal means of regulating imports.
>
> As interim measures, an own-funded import and an export retention scheme have been adopted, thereby allowing wider and more automatic access to foreign exchange and imports than had previously existed.
>
> Interest rates have been increased substantially, the goal being to achieve positive real interest rates by mid-1988.
>
> Tight monetary and fiscal policies have been adopted.
>
> Subsidies, most notably on food and agricultural inputs, have been eliminated, producer prices for agricultural exports have been increased and domestic prices are being decontrolled in such fashion that by July, 1988 only 12 categories of commodities will remain controlled.
>
> Restrictions on transport and trade in agricultural products and commodities whose prices are being decontrolled are being lifted.

3.10 These changes are beginning to have profound effects on all segments of the economy but especially on parastatals. In general they mean that the protection from domestic and international competition that parastatals in particular have enjoyed is being eroded, that they will have to pay prices and interest rates more similar to those faced by the private sector and that they cannot assume that the Government will automatically come to their rescue with subsidies or credit when they incur losses. Parastatals that can adapt to the new situation by improving internal efficiency or by shifting from unprofitable to profitable lines of activity--for example, from processes heavily dependent on imports to those that result in exports--will prosper; those that cannot will be hurt.

An Agenda for the Future

3.11 These policy changes address many but not all of the factors discussed in Chapter 2: they are necessary but not sufficient to generate the momentum for sustained improvements in the parastatal sector. First, special measures may have to be developed to assist parastatals especially hard hit by the effects of the credit squeeze and devaluation. Second, while the ERP provides strong incentives to parastatals--to the institutional entities--to improve performance, that fact does not automatically mean that board members, managers and employees of parastatals have comparably increased incentives. Since the Government, not any of these individuals, is the owner, no one with direct responsibility is automatically and necessarily hurt by poor parastatal performance or rewarded for superior performance. Past efforts to utilize institutional mechanisms to provide such motivation have worked poorly. Another, more serious effort in this direction is called for. Third, in addition to being properly motivated, parastatals and their managers must have the capacity to respond in appropriate ways. They cannot do so if they do not know how; if they cannot fill key staff positions with well-trained and motivated individuals, or if they are blocked by overwhelming debt obligations, pricing regulations, red tape, or lack of raw material, spares or infrastructure. To round out the ERP so far as parastatals are concerned, policies must be developed to resolve these problems. The following agenda is meant to accomplish this task.

Clarify Goals and Correct Expectations

3.12 In a speech given in November, 1985, President Mwinyi put parastatals on notice that they had two years to put their economic house in order or face disciplinary action. In effect, that statement told parastatals that they were to behave like profit-making entities, that non-commercial goals were to take second place, and that after a period of adjustment they would be held accountable. It is a statement that seems to have been taken seriously and may have been responsible for the harder line parastatal managers appear to be taking with non-paying customers and redundant workers during the last year.

3.13 More statements of this type, though of a more specific and detailed nature, are needed at the present time. They are needed to spread information about recent policy changes that are not widely known and understood.28/ They are especially important at the time a new program is being initiated. Otherwise, old expectations will remain, the new efforts will not be taken seriously and implementation will be impeded. If the assessment and recommendations of this study are accepted, that statement might include the following points:

-- an announcement that a new policy statement on parastatals will prepared within a specified period, say, six months; an indication of why such a statement is needed and what its general content will be;

-- an explanation for the new macroeconomic policy environment and the necessity of eliminating preferential treatment;

-- an appreciation of the fact that the new policy environment, as it unfolds, will create opportunities for some firms and problems for others;

-- a strong assertion that there will be no general bailouts--that there simply are not the resources to do otherwise--that the most that can be expected is that a few high priority firms might receive temporary assistance to help correct past mistakes and adapt more rapidly to the new environment.

-- an indication of the major steps to follow, e.g., announcement of the individual and the institution to be put in charge of the operation, announcement of programs to be initiated to eliminate credit and accounting arrears, etc.

-- an announcement of immediate interim measures--e.g., no new parastatals to be established, no net expansion of staff, no new loan guarantees to be issued, etc.--until this new policy statement is made public.

28/ A case in point is the list of commodities no longer subject to price controls and that can be freely imported and traded. It is important to do more than take away restrictions; at a minimum it is necessary to ensure that everyone knows that the restrictions have been lifted. A high-level, widely publicized announcement of this policy change would encourage private activities to enter the field more rapidly, would inhibit local efforts to restrict such activities and would put Regional Trading Corporations and other parastatals on notice that the competition they are beginning to face is not going to go away--indeed that it will increase--and that therefore they should begin

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3.14 A comprehensive policy statement pertaining to the parastatal sector would include a statement of what is expected of the sector and its role vis a vis other actors--the Government proper, cooperatives and the private sector--an analysis of their performance and problems in fulfilling this role and a plan of action to correct these problems. For some parastatals, in particular, marketing, trading and regulatory bodies, more specific statements of goals and objectives are also needed. Other countries have found such statements useful, first and foremost because the process of preparing such a statement forces a certain amount of strategic thinking to be undertaken, and second, because the publication of such a statement helps put everyone on notice about what is expected. Examples of such policy statements are provided in Appendix E.

Reduce the Number of Parastatals to a More Manageable Number and for this Purpose Classify Parastatals and Establish Specific Programs for Each

3.15 At the present time, very scarce managerial and financial resources are being spread over a large number of parastatals, so thinly that few of them have sufficient resources and expertise to do what is necessary to adapt to the new economic environment. These resources must be reallocated to provide high priority firms that are capable of becoming viable with all that they need and to stop wasting resources on firms that are no longer serving useful purposes or cannot become viable within a reasonable time.

3.16 For this purpose, it is proposed that parastatals be classified into commercial and non-commercial categories and that the commercial parastatals be further subdivided into those that must be maintained and made to work, those that no longer have any rationale and are to be divested and the remainder which will be allowed to fend for themselves, prospering or failing without special help or intervention. Each of these categories is discussed below.

3.17 Parastatals to be maintained. This category of commercial parastatals would include enterprises which the Government is determined to support even if they prove to be economically nonviable for a period. Parastatals likely to be included in this category in Tanzania are those concerned with post and telecommunications, water services, power production and distribution, rail and air services, harbours and ports, insurance and banking.29/ There is no good name for this category. Not all are "public utilities" as the term is commonly used; not all are natural monopolies; while they are all high priority, the Government is likely to assign high priority to the activities of other parastatals and private firms from time to time.

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adjusting to it rather than attempting to shore up their eroding monopoly position.

29/ The brewery and cigarette companies might be added to this list because of their importance in generating revenues. But the tax
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3.18 The distinguishing characteristic of parastatals in this category is that the Government would work out with them an agreement, sometimes called a "contract plan", that in the initial year would include plans for equipment rehabilitation and financial restructuring and on an annual basis cost minimization targets and pricing formulas as well as investment plans. The number of firms in this category must be strictly limited by the Government's ability to adequately develop, administer and finance such plans. At the present time, it is unlikely that more firms than those listed above could be included in this category.

3.19 Parastatals to be divested. Parastatals in this category are those which no longer serve any useful purpose, which are clearly not capable of becoming economically viable in a reasonable period of time or which the Government decides it no longer wishes to manage itself and prefers to turn over in part or whole to the private sector. If a parastatal fits one of these criteria. no further resources should be spent on it; it should be phased out and its useful assets redeployed elsewhere. Firms that are clearly not viable could equally well be placed in the next category and allowed to fend for themselves; but if it is clear that they are not going to succeed on their own, it would be better economically to redeploy their assets and manpower sooner rather than later.

3.20 All other commercial parastatals. Between these two extremes are a large number of parastatals that may or may not survive in a competitive environment without preferential treatment. They should be allowed to fend for themselves but with greater freedom to respond to competition (see below) and form joint ventures or enter into management contracts. Some may warrant temporary assistance to correct the effects of past policies and price distortions, but in most cases the enterprise should be left to survive on its own without special treatment. They should not, however, be asked to serve non-commercial goals without receiving appropriate compensation from the Government (see below).

3.21 Temporary assistance may be warranted in certain cases, for example where an enterprise has been decapitalized or unable to maintain and replace outmoded equipment because of price controls, Government-mandated social welfare objectives or sudden changes in policy (for example, devaluation). It may also be appropriate to help firms improve operational capacity in areas that were neglected in the past--for example, internal accounting and control systems, quality control, marketing and financial management.

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system is sufficiently well developed that the same revenue could be collected no matter who owned these firms. Nor is their anything to be gained by keeping out domestic and foreign competition.

3.22 However, Government resources that can be used for these purposes are extremely limited and should therefore be provided only to a few firms with the very best chance of prospering if such assistance is given and is not available from other sources.30/ To ensure that these conditions are met, thought should be given to setting aside a specific pool of budgetary resources for such assistance and asking firms in this category to compete for these resources by submitting proposals on a competitive basis to a panel of experts. An added degree of discipline can be obtained by providing these funds as loans, though perhaps at concessional rates. This procedure would ease the administrative burden on Government officials and improve the chances that the scarce funds would not be spread too thinly to be effective. Once this transition period is over, Government assistance for this purpose should cease and the Banking system should be relied upon as the principal institution for allocating credit.

3.23 Non-commercial parastatals. Government subventions to this group of parastatals is not insignificant; in 1985/86 it amounted to over TSh. 4.5 billion. The status of each should be scrutinized with care. Some are no different from ministerial departments and should be reconstituted as such. Others are likely to operate more efficiently if they are administered somewhat separately and have more autonomy to hire and fire and raise revenues through the sale of goods and services; cases in point are the University, major health facilities and possibly also some research institutes. They should not, however, be permitted the same degree of financial independence (for example, to borrow or determine how reserves are to be utilized) as commercial parastatals. Still others should be abolished or reconstituted as private voluntary agencies supported solely by private contributions. The goal of such a review should be to reduce the number of such agencies that have to be administered and financed and to improve the cost-effectiveness of those that remain.

Increase Competitive Pressures

3.24 During the last two years, competitive pressures on some parastatals have been significantly increased. This has occurred because of the introduction of the own-imports and export retention schemes, and by deconfinement of industrial supplies and domestic distribution of agricultural commodities and inputs except fertilizer and seed. The Government is committed to proceed further with deconfinement, and to consider arrangements for fertilizer and seed, as additional price controls are eliminated.

3.25 Many barriers to entry into economic activity still exist, however. To eliminate or reduce them, additional measures should be considered. Government offices and parastatals could be allowed--perhaps even encouraged if better service or lower costs can be obtained--to purchase supplies and services from any accredited source. Examples of the supplies and services that should be considered are office supplies, accounting services, legal services, transport and shipping--all of which, as a practical matter, are still "confined". To make this measure effective,

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30/ In some cases necessary assistance can be obtained from private partners in joint ventures, management firms which agree to take an

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private firms--and cooperatives and parastatals in other lines of business as well--should be allowed and encouraged to establish accredited businesses in these areas. For example, financial institutions could be allowed to offer the full range of financial and banking services and to provide them to any potential client; and cooperatives could be encouraged to expand the range of services they provide--for example, opening retail stores--in their region. open retail outlets and provide other services to members and non-members alike within their area. Reducing barriers to entry is also likely to require changing regulations governing permits to invest and establish new businesses and revising legislation providing protection in case of expropriation (for example, to specify an objective procedure for determining the value of assets, as opposed to the present vague promise of "full and fair" value, and a clear time frame for compensation, presently unspecified). Many other barriers to entry, informal and subtle as well as formal and obvious, are likely to exist; a broad-ranging study should be undertaken to identify them and to determine how to change them.

Eliminate Preferential Treatment

3.26 As detailed in Chapter 2, parastatals receive preferential treatment in a variety of ways. If inefficiency is not to be rewarded, this treatment must be eliminated. Subsidies must be provided sparingly and only for specifically agreed services. Payment of taxes and dividends must be required on the same terms as required of private companies (and if the dividends cannot be paid they should accrue with interest).31/ Government guarantees for domestic loans should be eliminated if possible, or if not provided sparingly for exceptional reasons. Interest rates on such loans are projected to become positive by mid-1988; in the interim it would be useful to investigate how, from whom and at what rates the private sector obtains credit so that a set of positive rates can be selected that eliminates any remaining preferential treatment. Guarantees on foreign loans should be provided sparingly and all such loans should be onlent at commercial rates. In addition, the credit allocation system should be studied to determine the extent and nature of preferential treatment accorded in this way.

3.27 Other dimensions of financial discipline can be enforced in the following ways. It should be stated and restated at the highest level--and demonstrated in practice--that there will be no automatic Government bailout or debt forgiveness. Arrears can be handled by insisting that all overdue bills, taxes, loan payments and so on must be settled (not necessarily at par) or renegotiated within a maximum of six months, after which banks will be instructed not to provide credit and producing parastatals not to provide goods or services to any company in arrears, regardless of

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equity position or establish some other profit sharing arrangement, or through twinning arrangements with similar, more developed firms.

31/ So far as dividends are concerned, one way to do this is to determine a standard or average dividend rate from a study of private business

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priority. Since some intractable and contentious problems are likely to arise, it would be useful to assign a task force to assist with implementation and mediation. The Government may also find it necessary to assist some parastatals financially if this problem is to be resolved once and for all. The problem of inadequate financial accounts can be handled by instructing banks to consider parastatals without accurate, up-to-date accounts (after a grace period of, say, six months) to be non-creditworthy and, therefore, not eligible for credit, regardless of priority. Here too some intractable problems may arise that require special assistance.32/

Eliminate Discriminatory Treatment

3.28 As discussed in Chapter 2, there are a variety of factors that make it difficult for parastatals to compete on equal terms. It is as important to remove such barriers as it is to eliminate sources of preferential treatment.

3.29 Price Controls. Parastatals are obliged to adhere to price controls and guidelines to a greater extent than the private sector. In part, this situation derives from the fact that parastatals are more frequently found in fields where regulation has been necessary because of the absence of competitive pressures. But the situation also dervies from the fact that it is easier to enforce price controls on the public sector. As noted above the list of commodities subject to price controls by the National Price Commission is to be reduced to 12 groups by mid-88; consideration should be given to going further at that time. Other prices, including especially those of natural monopolies, are currently set by Cabinet. For these, consideration should be given to delegating this authority to a more technical body on the basis of guidelines set by Cabinet. These guidelines might usefully include automatic pass-through of the effects of devaluation and interest rate increases except for a targeted improvement in efficiency which would be passed on to consumers.33/

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practices and then to require all commercial parastatals--subsidiaries and holding corporations as well as independent corporations--to pay (or accrue with interest) the appropriate amount to the Government.

32/ In 1986, the National Board of Accountants and Auditors directed auditors to follow practices laid down in a manual, Standard Accounting Practices and Principles; more recently, it has initiated a series of steps to assess and improve training capacity in the country. These efforts should be reviewed to determine their effectiveness and whether anything more needs to be done at the present time.

33/ A recent directive that allows the railway to raise its tariffs by up to 5 percent without prior approval and by up to 10 percent with

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3.30 Social objectives. Some parastatal managers appeal to social objectives as an excuse for inefficiency. At the same time, some Government officials believe that parastatals should be willing to bear the expense of achieving social objectives--for example, keeping redundant workers or providing merchandise or services to public agencies, officials and remote regions at less than market price--because they are compensated, among other ways, by receiving foreign exchange and credit at favorable rates. Both arguments lead to a stalemate that permits the inefficiencies to continue. That stalemate would disappear if it was accepted by all parties that commercial parastatals are to serve strictly commercial goals, that social services are not expected of them unless specifically contracted and paid for and that they should not expect any preferential treatment. To accomplish this change in expectations, high-level public statements to this effect are needed along with changes in procedures and policies that eliminate preferential treatment and establish a mechanism of contracting for social services. That mechanism should be a part of the the budget process, which is where decisions to make other purchases by the Government are taken. For example, regional trucking companies are expected to service remote areas without extra compensation. Either the company should be allowed to raise its fees for these regions or the Government should agree to pay the difference.34/

3.31 However, before any such solution is implemented, the costs and benefits of achieving the underlying goal in different ways should be assessed. For example, a sample survey could determine how much of the supply of an item, such as farm implements, is provided to remote areas by the RTCs; whether the items they provide go to the intended beneficiary--the poor farmer--or to wealthier farmers or middlemen; and what would be the effects, benefits and costs, of leaving provision of such goods to private channels.

3.32 Managerial Autonomy. There is general agreement that managerial autonomy must be increased. Parastatal managers cannot be held accountable for results if they have little power to determine those results; nor can they be expected to perform on a par with private managers unless they have similar degrees of freedom. This means, for example, that managers should have more freedom to hire and fire staff, set prices and wages, purchase

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ministerial approval during each six month period is a sign that the need for greater flexibility is being realized. But this particular guideline bears no necessary relationship to actual increases in costs and improvements in efficiency. To introduce these elements effectively, some negotiation between the parastatal and a technical body representing the interests of the Government and country at large will be necessary.

34/ Other more specific solutions might be considered in special cases. For example, poor people in remote villages could be allowed to purchase vouchers to buy farm implements at a discount, all other customers paying the full price plus transport costs; the parastatal would then turn the vouchers over to the Government for reimbursement of its costs. If such a targeted subsidy proved administratively too burdensome, a more expensive but still acceptable solution would be to reduce the price to all customers and subsidize the enterprise directly. A third best solution that can be considered in cases like the provision of electricity where the market can be segmented is cross-subsidization, that is, charging one part of the market more than another so that on average all costs are covered.

from the most economical and reliable suppliers, sell in the most profitable markets, close plants and production lines that cannot make a profit and open new lines and plants in the most promising areas. The quality of their decisions should then be judged after the fact--by results--not by the extent to which they conform to a priori rules and regulations.

3.33 Managers have not been given more freedom for at least four reasons: desire that they conform to certain uniform standards (e.g., with respect to wages and terms of employment), lack of confidence in their abilities, weak boards of directors, and pressure to implement non-commercial objectives (e.g., location of a plant in a backward area). But it is also the case that managers have often not exercised the full extent of the freedom they have, in large part because they are not directly rewarded and punished for the ensuing results.

3.34 Pressures to implement non-commercial objectives should be dealt with as discussed above, by reiterating the priority of commercial goals and using special contracts to achieve non-commercial goals (in those hopefully rare cases where it is found to be appropriate and necessary to utilize commercial parastatals for these purposes). The other factors suggest that it may be best to proceed towards more autonomy by modest increments. This can be done by specifying general principals that should be followed or setting a range within which the manager has latitude to act (with or without board approval). As everyone becomes more comfortable with the results, the range within which latitude is allowed should be increased; and wherever possible, general principles should be substituted for ranges. The procedure suggested above for regulating prices charged by natural monopolies is a case in point.

3.35 Weak boards and management committees contribute to the problem by encouraging regulatory agencies to undertake supervisory functions normally assigned to boards; but such agencies can only do so by establishing uniform rules seldom tailored to the circumstances of individual parastatals. The Government has already taken a number of steps to strengthen boards. These measures need to be consolidated and reinforced by ensuring that they are rigorously applied, appointing more technical experts (which means using fewer civil service generalists) and providing training where necessary for others, removing directors who perform poorly, limiting terms of appointment to 3-5 years and providing appropriate remuneration packages. In addition, it would be useful to develop a set of guidelines that spells out objectives and functions of Boards and national policy issues of relevance in formulating company policy. So far as management committees are concerned, they tend to be inherently weak because of their composition; thought should be given to replacing them by full boards.

3.36 Employment and Compensation. Instead of paying salaries and benefits competitive with the private sector, parastatals have depended on secondment from the civil service and central allocation of new graduates obligated to work for the public sector to fill their needs for managerial and technical manpower. This approach has resulted in moonlighting, low productivity and morale, greater dependence on high cost expatriates and a sorting out of personnel, those more interested in security and less capable of competing in the private sector remaining in public service.

These problems cannot be eliminated in any other way than to make compensation packages competitive with the private sector. This does not mean that public salaries should be identical to that of the private sector since there is more security of employment, but it does require some narrowing of the gap. That cannot be done without increasing productivity, which means in the first instance at least, eliminating redundant labor and motivating remaining employees to devote their energies to enhancement of parastatal goals. A necessary, though far from sufficient condition for accomplishing this is to provide managers with more freedom to hire, fire, and set wages, as discussed above. Such flexibility is absolutely necessary if restructuring of the parastatal sector is to occur at all. A barrier to providing such flexibility may be fears about the social consequences of the disruptions involved. While many observers appear to believe these consequences would be minimal in Tanzania because of earlier experiences with retrenchment (see paragraphs 6-9 of Appendix B), the fears may still be present and deserve consideration if only to lay them to rest. Other means to increasing productivity must be identified on a case by case basis.

3.37 A review of income tax and fringe benefit policies is also called for. While marginal rates have recently been adjusted, they remain so high that the benefit of salary increases higher levels is small and the incentive to receive increases in the form of non-taxed fringe benefits remains high. Fringe benefits now account for a large fraction--perhaps 50 percent--of total compensation. Particularly when given in kind rather than monetary allowances--which is most common--they impose substantial costs and managerial burdens on parastatals and they lend themselves easily to abuse. These two subjects deserve careful study to develop a plan by which fringe benefits can be reduced, the savings used to increase base salaries and tax rates adjusted to ensure that an adequate fraction of the increase in base pay is passed on to the employee. Of particular importance is a review of housing policy, perhaps the most managerially burdensome and costly of the fringe benefits.

Establish a Performance Monitoring and Evaluation System

3.38 In principle, performance evaluation of public enterprises involves, first, agreement on goals or targets, second, assessment of the extent to which the company met these objectives, and third, determination of the reasons for the observed performance, that is, whether due to external or internal factors, and if the latter assignment of responsibility. This information would then be used to reward or penalize those responsible as appropriate. The second and third steps can become quite complicated since the analysis must separate out various causes, determine which could be influenced and consider what would have happened under a different set of circumstances. Tanzania has neither the necessary information systems nor sufficient trained analysts to undertake such an analysis for more than a few enterprises. On the other hand, some system of performance evaluation and rewards is necessary to provide proper incentives for superior performance.

3.39 For important enterprises, the system can be embodied in a contract plan (see paragraphs 3.17 and 3.18) that includes a section on how managers will be rewarded/penalized for their performance and how that performance will be judged. One way do so is to establish an expert committee reporting to the office responsible for appointing the manager. In most of these cases, this means reporting to the President. This expert committee would assist or advise the Government on relevant portions of the contract plan, assess the extent to which goals and targets have been met and judge the extent to which senior management was responsible for the outcome.

3.40 For the bulk of parastatals that do not have contract plans, reliance might again be placed on an expert committee reporting to the appointing body, the principal difference being that there would have to be a general formula or set of guidelines established to determine rewards and penalties to be applied across the board (or to major groupings of parastatals).

3.41 A mechanism already exist for providing bonuses to workers in companies that surpass agreed-to production targets; but it works poorly: few agreements are concluded, registered and accepted, and only a handful of bonus awards have actually been made since its inception in 1981. An important reason for this poor record is the highly centralized nature of the scheme which requires the registration and acceptance of a voluntary agreement between managers and workers by the Permanent Labor Tribunal (see paragraphs 46-48 of Appendix B). If managers were held more accountable for parastatal performance, as proposed above, they could be given more autonomy with respect to providing such bonuses directly, or with agreement only of their boards.

Institutional Arrangements

3.42 This program for parastatal reform requires two different types of institutional arrangements, one to cover a transition period of two or three years and the other to operate and manage the parastatal system that emerges from this transition period.

3.43 Transitional Arrangements. During the transition period some one, or agency, must be assigned responsibility to:

-- think broadly and strategically about the best way for the Tanzanian economy to organize itself in the long run and decide on the role that the parastatal sector should play, and for this purpose undertake analyses and develop position papers for consideration by the President and Cabinet;

-- develop detailed plans to move the economy and the parastatal sector in particular in the desired direction, a task that includes classifying parastatals and setting up programs and procedures to deal with parastatals in each group;

-- make sure that all parties understand and accept the need for these changes; and

-- implement--or assign responsibility and supervise the implementation of--the agreed-to plans, for example, review, and if necessary assist in the development of, rehabilitation proposals and implement programs to correct credit and accounting arrears problems.

3.44 These four tasks, or sets of tasks, are not fully separable or doable in stages: each will interact with the other and in the process goals, plans and implementation proceedures will be amended. For this reason, one agency should be assigned responsibility and held accountable for all four tasks. But to accomplish these tasks, it must have the power to delegate authority, assign responsibilities to other agencies and impose sanctions for noncompliance. For example, it might ask the Commissioner for Public Investment to implement the programs to eliminate credit and accounting arrears; and it might ask sector ministries or holding companies that have the capacity to do so to advise on which parastatals should undergo rehabilitation, help draft terms of reference for studies to prepare rehabilitation programs, and supervise the whole process. In addition, this core agency should have the authority to set up advisory committees, special implementation teams and ad hoc task forces and to hire consultants as needed to get the job done.

3.45 Since the tasks involved are similar to--indeed they are a part of--the Economic Recovery Program which is the responsibility of the Ministry of Finance, consideration might be given to locating this agency in that ministry. But the problem of finding the proper person to lead this effort argues against inclusion in that ministry. The person must be distinguished and senior enough to be listened to by the President and the Cabinet; he must have a high enough rank to deal effectively with parastatals, regulatory bodies and ministries--which probably means a rank of Minister or Principle Secretary--and he would have to devote full time to the task, ideally for the whole transition period. Such a person would not be effective if located within a ministry; he would have to report directly to the President. A practical alternative, therefore, is to locate this agency in the Office of the President. The President's Implementation Team for the Hamad Commission Report provides a precedent for this; but the body envisioned here would differ in that it would have ongoing strategic analysis and planning functions as well as implementation and supervisory functions. For this purpose, its head would need several deputies to whom primary responsibility for major parts of the program could be assigned and

a small--perhaps no more than a dozen--senior staff. All these individuals should be capable of preparing high-level decision memoranda and have sufficient authority to implement or supervise implementation of parts of the program.

3.46 Ongoing Arrangements. The ongoing functions that the Government needs to perform to properly manage its parastatal sector can conveniently be summarized by reference to a statement recommending the proper role for management of multi-divisional firms in the private sector. According to that statement, head offices of such firms should undertaken the following tasks with regard to their subsidiaries:

(i) Set basic objectives;

(ii) Appoint the general manager and members of the board;

(ii) Evaluate performance;

(iv) Reward or penalize the manager for his performance;

(v) Review financing decisions that affect the funds of the head office;

(vi) Do long range planning and coordination across units;

(vii) Do nothing else--that is, leave all other decisions to the management of the operating units.35/

3.47 For public firms, this list needs two modifications. First, task (v) should be amended to read "review financing decision that affect public funds (including equity contributions, debt guarantees, and allocation of surpluses to dividends, capital projects and other uses)". And second an additional function should be added, namely, to regulate and set prices for natural monopolies and wherever necessary enter into contracts for the performance of special non-commercial tasks.

3.48 The first of these tasks must ultimately be performed by the President and Cabinet. To do so they will continue to require policy papers and advice on a regular basis. A scaled-down version of the central agency envisioned for the transition period would be appropriate. This central agency could also assist the President in making parastatal appointments and serve as the secretariate for the advisory committee on parastatal performance.

3.49 Final responsibility for review and supervision of financial decisions must rest with the Ministry of Finance, with the Office of the Commissioner of Public Investment and DEVPLAN playing key roles, since these decisions affect the central Government's budget. But sector

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35/ After speech by Professor Leroy Jones to World Bank Public Enterprise Seminar, February 1987.

ministries, holding companies and boards of directors must also be involved.

3.50 Long range planning and coordination at the sector level should be the primary responsibility of sector ministries, though in some circumstances they may call upon holding companies to assist. Guidelines for the establishment of these sector plans must be provided by DEVPLAN which would also, along with the central agency concerned with basic objectives for the parastatal sector, review these plans to ensure conformity with national priorities and objectives.

3.51 Monopoly regulation and performance contracts, at least for the time being, should be in the hands of the central agency. Eventually, these functions might be moved to Treasury or decentralized to sector ministries.

3.52 The admonition to "do nothing else" implies a substantial devolution of authority to managers and their boards of directors. Such a devolution may have to proceed in stages, the first stage consisting of negotiations with a regulatory body for more discretionary power and exceptions to general rules (for example, with respect to compensation).

* * * * *

3.53 These recommendations involve four types of changes in the current regulatory system. First, strategic policy analysis and planning would become a distinct, important function clearly assigned to an appropriate agency; the President and Cabinet would continue to make final decisions but would have available to them papers and decision memoranda to serve as guides. Second, there would be fewer cases of overlapping authority. Wherever possible, primary or ultimate responsibility for a given function would be assigned to a single agency; it may in turn delegate that responsibility but the accountable agency is clearly identified. Third, there would be less reliance on uniform regulations, more reliance on guidelines and negotiated arrangements. While this approach is time and staff intensive, it would be feasible because such efforts would be focussed on only a few critical parastatals.

3.54 Finally, because the parastatal sector would be significantly smaller, the size and number of agencies involved could be substantially less. Remaining parastatals could be grouped together in such ways as to reduce the number of sector ministries and holding companies involved in their operations. And the functions of a number of specialized regulatory/supervisory bodies could be taken over by other agencies. For example, SCOPO's functions as well as those of the National Productivity Council, to the extent they continue to be performed, could be taken over by the central authority. The result should be a more streamlined system that conserves on scarce resources and high-quality administrators while at the same time affording managers more autonomy to get on with their job <u>and</u> more pressure on them to do it well.

LIST OF APPENDICES

APPENDIX A1 PARASTATALS IN TANZANIA

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employst.	Private Participation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
AGRICULTURE AND LAND	CASHEWNUT AUTHORITY OF TANZ.	219.3	394				
	Mtwara Cashew Co Ltd.	6.0	60				
	TANITA Co. Ltd.						
	NATL FOOD AND AGRIC CORP						
	Arusha Plantations						
	Bagamoyo Farms						
	Basuto Plantation						
	Dakawa Rice Farms						
	Kigamboni Poultry Farm						
	Kiru Valley Dev Co.						
	Mbozi Maize Farms	5.0	116				
	Setchet Wheat Co.	5.6	231				
	Tan Seed Co.						
	West Kilimanjaro Farms						
	NATIONAL MILLING CORPORATION	30.0	2098				
	Dodoma Wine Co.						
	National Poultry Co.						
	SUGAR DEVELOPMENT CORPORATION						
	Kagera Sugar Co.				Kagera Sugar Ltd.	G	F
	Kilombero Sugar Co.	244.0	6069				
	Mtibwa Sugar Estates Ltd.	150.2	3258				
	Tanga. Planting Co.				M/S Carl Bro A/S (Denmark)	M	n.a.
	TANZANIA SISAL AUTHORIT.		240				
	Kimambe Sisal Estate Co.						
	Mombo Sisal Estates Co.		1500				
	Morogoro Sisal Estates Co.						
	Muheza Sisal Estate Co.						
	Tan Carpet Co.						
	Kwamkoro Tea Estates						
	Mafuta ya Ilulu						
	Mkonge Livestock Co.	2.5					
	MOPROCO						
	National Distributors Ltd.	10.0	348				
	National Ranching Co Ltd						
	Ngombezi Sisal Estate Co.		2400				
	Oljoro Farms						
	Ralli Estate Ltd	5.0	770	50			

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Participation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	Ruvu Rice Farms						
	Sisal Kambi Spinning Co.						
	Sisalsam Products Ltd						
	Tanga. Coffee Curing Co Ltd.	8.5	602				
	Tanga. Packers Ltd						
	Tanga. Pyrethrum Board		289				
	Tangold Products Co						
	Tanzania Agric. Research Org. d/						
	Tanzania Animal Feeds Co.						
	Tanzania Coffee Mktg. Board						
	Tanzania Cordage Ltd.						
	Tanzania Cotton Mktg. Board						
	Tanzania Dairies Ltd.	1.5	161				
	Tanzania Dairies Ltd. - DSM	2.0	198				
	Tanzania Dairies Ltd. - Tabora		82				
	Tanzania Dairy Farming Co. Ltd.						
	Tanzania Hides and Skins	7.9	205				
	Tanzania Instant Coffee Co.						
	Tanzania Livestock Research Org. d/						
	Tanzania Tea Authority		1287				
	Tanzania Tea Blenders	11.0	720	40			
	Tobacco Authority of Tanzania		1478				
	Tropical Pesticide Res. Inst. d/						
	Uyole Agricultural Centre.						
COMMUNICATIONS AND TRANSPORT	NATIONAL TRANSPORT CORPORATION	0.3	89				
	Dar Passenger Transport	30.7	1630				
	Dodoma Regional Transport Co	20.0	184				
	Iringa Regional Transport Co						
	Lindi Regl Transport Co	0.5					
	Mtwara Regnl Transport	4.3	165				
	Natl Bus Services	14.9	656				
	Natl Inst of Transpt d/						
	Ruvuma Regional Transport Co	11.7	204				
	Tan Coastal Shipping Line	11.4	252				
	Air Tanzania Corp	237.8	1500				
	Bukoba Transport Co.	2.8	41				
	Board of Regis. of Architects d/						
	Kagera Regional Transport						
	Morogoro Regnl Transport Co						

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Employst.	Private Partici-pation (%)		Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	Mwananchi Eng.Constr Co.	11.5	2008					
	Mwanza Regnl Transpt							
	National Board of Materials Mgt. d/							
	National Construction Council d/							
	National Estates & Designing Corp.		194					
	Tabora Regional Transport							
	Tanzania Central Freight Bureau d/							
	Tanzania Harbours Authority		10822					
	Tanzania Posts & Telecomm. Corp		6182					
	Tanzania Railways Co.		18871					
DEFENSE	Mradi wa Nyumbu							
	Mzinga Corp							
EDUCATION	Institute of Adult Education d/							
	Institute of Education d/							
	National Examination Council d/							
	Sokoine Univ. of Agriculture d/							
	Tan Elimu Supplies	85.0	600					
	Tanzania Library Service d/							
	Univ. of Dar es Salaam d/							
FINANCE AND PLANNING	Bank of Tanzania	20.0	980					
	Bima Motors Ltd							
	Cooperative Rural Devt. Bank	298.1		533	40			
	Inst. of Finance Management d/							
	Karadha Company Ltd.	70.0	45					
	National Bank of Commerce	50.0	6281					
	Natl Bd of Accountants & Auditors d/							
	National Insurance Corp.	5.0	1904					
	National Lottery		20					
	National Productivity Council d/							
	National Radiation Commission d/							
	Rwallimali Ltd							
	Rufiji Basin Dev Author		84					
	Stiegler's Gorge Safari Camp							
	State Insurance Brokers							
	Tanzania Audit Corp.		323					
	Tanzania Housing Bank	100.0	972					
	Tanzania Investment Bank	100.0	120					
	Tan. Natl. Science Res. Council d/							
	THB Estates Co	10.0	27					

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Participation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
FOREIGN AFFAIRS	Arusha Intl Conf. Centre d/						
HEALTH	Muhimbili Medical Centre d/						
	National Food & Nutrition Centre d/						
	Natl. Inst. of Medical Research d/						
JUDICIARY	Tanzania Legal Corp						
LAND, HOUSING AND URBAN	Ardhi Institute d/						
	Kiamasea Brick Co						
	Natl. Environmental Mgt. Council d/						
	National Housing Corp						
	National Estates & Designing Corp.	1.0	194				
	Registrar of Buildings d/		524				
	Tanzania Concrete Articles						
MANPOWER DEVT. AND LABOR	Inst.of Dev.& Mng. Mzumbe d/						
	National Inst. of Productivity d/						
	National Inst. of Social Welfare d/						
	National Provident Fund d/						
MINERALS AND ENERGY	STATE MINING CORPORATION	162.6	339				
	Buckreef Gold Mines						
	Coastal Salt Works						
	Kahama Gold Mines Co						
	Kilwa Ammonia Co						
	Lupa Gold Mines						
	Minjingu Phosphate						
	New Almasi Ltd						
	Nyanza Salt Mines	3.0	572	19			
	Pugu Kaolin Mines Co						
	Tanzania Diamond Cutting Co	40.0	483				
	Tanzania Gemstone Inds.	1.0	70				
	Tanzania Magnesite Co						
	Tanga. Meerchem	2.4	142	44			
	Williamson Diamonds	12.0	2214	50			

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	TANZANIA PETROLEUM DEVT. CORP.		202				
	Agip Tanzania Ltd	30.0	243	50			
	BP Tanzania Ltd	13.2	140	50			
	Gas Supply Co.						
	Tanz. & Ital. Petrol Refining	35.0	499	50			
	Tanzania Electric Supply Co.	1033.3	5915				
NATURAL RESOURCES AND TOURISM	Bagamoyo Fishing Co.						
	Fibre Boards Africa Ltd.	13.0					
	Giraffe Wattle Extract Co.Ltd						
	Hotel Embassy						
	Hotel Seventy Seven Village	61.9	287				
	Kilimanjaro Timber Utilization Co.						
	Kilwa Sawmill Co						
	Mang'ula Sawmill						
	Mbeya Sawmill Ltd						
	Mingoyo Sawmill						
	Mkata Sawmill Co		270				
	Moshi Hotel Ltd						
	Mount Meru Hotels	40.0	280	10			
	Mwanza Hotel Ltd						
	National Tours Ltd						
	New Safari Hotel Ltd						
	Ngorongoro Conserva. Area Auth. d/						
	Nyamisati Fishing Co						
	Sao Hill Sawmill (T) Ltd						
	Seafaris Ltd						
	Serengeti Safari Lodges	13.5	409				
	Serengeti Wildlife Research Inst. d/						
	State Travel Services Ltd						
	Tabora Miaitu Products Ltd	1.4	120				
	Tanzania Fisheries Corp		196				
	Tanzania Fisheries Research Inst. d/						
	Tanzania Forestry Research Inst. d/						
	Tanzania Hotel Investments						
	Tanzania Hotels Ltd						
	Tanzania National Parks d/						
	Tanzania Tourist Corp. g/	161.6			Sheraton Overseas Mgt Corp (USA)	M	n.a.
	Tanzania Wildlife Corp	6.2	287				
	Tanzania Wood Industry Corp						
	Tembo Chipboards Ltd.	0.3	351	20			
	TTC Gift Shops Ltd						
	Uvuvi Kigoma Ltd						

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
PRIME MINISTER'S OFFICE	Audio Visual Institute d/						
	Cooperative College d/						
	DDCs (75)						
	Inst. of Rural Devt. Planning d/						
	Kariakoo Market Corp.	19.9	228				
	Kibaha Education Centre d/						
	National Arts Council d/						
	National Kiswahili Council d/						
	Tanzania Film Co Ltd d/						
	Tanzania News Agency/Shihata d/						
	Tanzania School of Journalism d/						
PRESIDENT'S OFFICE	Capital Construction Equipment						
	CDA e/						
	Ceramics Industries Ltd						
	Dodoma Brick & Tiles Works						
	Integrated Concrete Ind.						
	Workers' Development Corp. (T) d/	3.0	29				
TRADE AND INDUSTRY	BOARD OF INTERNAL TRADE	1.7	254				
	Agric. & Industrial Supplies Co	49.0	251				
	Bisshara Consumer Co	47.3	316				
	Bldg. Hardware & Elec. Supply Co	44.0	250				
	Dar Textile Company Ltd.	12.0	192				
	General Food Company	46.5	324				
	Household Supplies Co.	125.0	115				
	National Pharmaceutical Co Ltd.	9.1	235				
	Stationery & Office Supply	5.3	89				
	NATIONAL CHEMICAL INDUSTRIES	320.6	31				
	General Tyre	30.0	628	26			
	Keko Pharmaceutical Industrs		156				
	Polysacks Co	12.0	150				
	Sabuni Industries Ltd.	19.5	320				
	Tanzania Fertilizer Co. Ltd.	278.0	864	40	Klockner Ind.&Rohstoffe (Austria)	M,O	V w/min.
	Tanzania Pharmaceutical Industrs	29.0	118				
	Tanga. Tegry Plastics	6.0					

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employat.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	NATIONAL DEVELOPMENT CORPORATION	3.8	228				
	Air Communication Technologies						
	Aluminum Africa Ltd.	83.3	1406	37			
	Kilimanjaro Machine Tools Co	111.4	175		FTEC Machine Export (Bulgaria)	0	F
	Liganga Iron and Steel						
	Light Source Mfg Co				Tungsram (Hungary)	0	F
	Mang'ula Mech. Machine Tool	46.5	536				
	Mbeya Farm Equipment						
	Mech. and Machine Tools						
	Metal Box Tanzania Ltd.	10.0	371	50	Metal Box p.l.c. Intl. (UK)	0	F,V
	Mwanza Farm Equipment						
	National Bicycle Co.						
	National Engineering Co.	12.0	374	8			
	National Steel Corp	5.5	64				
	Refrigeration Equipment						
	Southern Paper Mills	1280.7					
	Steel Rolling Mills Ltd.	25.0	328	4			
	Tanzania Cables Ltd	18.0	91	29	Comcraft Services Ltd. (UK)	0	F,V
	Tanzania Crown Corks						
	Tanzania Elec. Goods Mfg. Co	37.7	156	20			
	Tanzania Oxygen	6.4	126	40			
	Tanzania Watch Assembling Co	3.8	18				
	Ubungo Farm Implements	13.2	632				
	NATIONAL TEXTILE CORPORATION	460.0	127				
	Blankets Mfg Ltd	2.0	679				
	Friendship Textile Mill	30.0	4295				
	Kilimanjaro Textile	52.0	2066	49			
	Morogoro Canvas Mill	152.2	968				
	Musoma Textile	256.9	846				
	Mwanza Textile	124.6	2751				
	Tanzania Bag Corp.-Mill I	650.0	620				
	Tanzania Bag Corp.-Mill II	40.7	418				
	Tanzania Sewing Thread Mfg Co.						
	Tanga. Dyeing & Weaving Mill	13.1	2006				
	Ubungo Spinning Mills						
	Ubungo Garments Ltd.	12.2					

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	SMALL INDUSTRY DEVT. CORP. d/		682				
	Tanzania Handicrafts Mktg Co						
	STATE MOTOR CORPORATION	2.0	88				
	Burns & Blane (T) Co.	0.2	85				
	East African Motor Assemblies						
	Express Tanzania Ltd	115.8	148				
	Farm Machinery Distribution						
	Motor Mart Tanzania Ltd	0.4	40				
	Motor Service Co						
	Musanchi Tractor & Veh. Assem.						
	Neon & General Signs (T) Ltd						
	Riddoch Motors	5.0	257				
	Tanzania Auto Mfg. Co Ltd	26.6	120				
	Tanzania Motor Corp	20.0					
	Tanzania Tractor Mfg	13.8					
	Trailers & Low Loaders Mfg.	5.0	110				
	TANZANIA BREWERIES LTD.	20.0	3982	45	Agrocomplect (Bulgaria)	M,O	F
	Darbrew Ltd.	3.6	155				
	TBL Farms						
	Tanzania Malting						
	TANZANIA KARATASI ASSOCIATED INDS.		41		Gibbons Barford Print Export Ltd.	M	F,V
	Eastern Africa Publications Ltd						
	Kibo Paper Industries	4.3	855	7			
	National Printing Co.	10.0	545				
	Printpak Tanzania Ltd.	14.8	480				
	Tanzania Publishing House						
	TANZANIA LEATHER ASSOCIATED INDS.		65				
	Morogoro Leather Goods Co	5.7	118				
	Morogoro Shoe Co	90.4	440				
	Morogoro Tanneries	50.0	334				
	Musoma Tanneries	56.9	155				
	Tanzania Shoe Co.	18.0	2519				
	Tanzania Tanneries Co Ltd.	10.0	822				

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	TANZANIA SARUJI CORPORATION		94		M/S Progoinvest (Czechoslovakia)	M,O	F,V
	African Marble Co.						
	Mangwai Prefab. Concrete						
	Mbeya Cement Co.						
	Morogoro Ceramics Wares				Comcraft Mgt. Services (Panama)	M	F,V
	Nyanza Glass Works						
	Saruji Trucking Co.	10.0					
	Tanga. Cement Co.	450.0	642				
	Tanzania Clay Products						
	Tanzania Gypsum Ltd.						
	Tanzania Portland Cement Ltd	3.0	768				
	Tanzania Sheet Glass				Comcraft Mgt. Services (Panama)	M	F,V
	Afina Pencils Co						
	Arusha Metal Industry						
	Board of External Trade d/		101				
	Bruce (Tangan) Ltd.						
	CAMERTEC g/						
	College of Business Education d/						
	Land Rover Tanzania						
	National Shipping Agencies Co.	10.0	932				
	Nuts Press Ltd.	1.4	95	50			
	Nyanza Clay Products						
	RTCs (21)						
	Rubber Industries	1.3	119				
	Tabora Textile Mill						
	Tanga. Standard (Newspaper) Ltd.	12.8	128				
	Tanzania Bureau of Standards d/		157				
	Tanzania Cigarette Co	180.0	1569				
	Tanzania Engg. Mfg. Design Org. d/						
	Tanzania Ind. Research & Devt. Org.		75				
	Tan. Ind. Stud. & Consit. Org. d/		126				

APPENDIX A1 (continued)

MINISTRY AFFILIATION	HOLDING COMPANIES Operating Companies Independent Companies	Size (latest yr.) Paid-up Capital ('000 Tsh)	Size (latest yr.) Employmt.	Private Partici-pation (%)	Management Contract With a/	Type of Agreement b/	Terms of Agreement c/
	Tanzania Packages Mfg.						
	Tanzania Starch Mfg.						
	Tanzania Trust						
	Tanzania Vehicle Finance						
	Zan za Kilimo-Mbeya	44.3	640		M/S Gense (Sweden)	M,O	F
WATER	National Urban Water Authority						

a/ Operating or approval 1987-87. May be incomplete.

b/ M = Management Agreement; O = Others: Consultancy or Technical Advisory/Services/Services Advisory/Services Assistance/Consultancy Agreement.

c/ F = fixed fees; v = variable fees; n.a. = not available.

d/ Non-commercial agency.

e/ By Tanzania Tourist Corporation for the following companies (or hotels); Kilimanjaro, Kundchi, Tanzania Tours Ltd., Sofitel New Africa, Novotel Mount Meru and Serengeti Safari Lodges.

Sources: SCOPO, "Agenda for Industrial Recovery", Vol. II, p. 60 ff and Inter-Ministerial Parastatal Management and Technical Agreements Committee, "Diary".

Note: The "Diary" uses the following names of companies with management contracts which do not appear in the SCOPO list of parastatals: KILEX (TEXCOT); DAHACO - DSM Airport Handling Co. (ATCT); TPC Ltd. (SUDECOT); ALAF (NDCT); Morogoro Polyester Textiles Ltd. (TEXCOT); Mbeya Textile Mill Ltd. (TEXCOT).

APPENDIX A2 PARASTATAL VALUE ADDED BY SECTORS

Table A2.1 PARASTATAL VALUE ADDED BY SECTORS, MILL. SHS.

	1978	1979	1980	1981	1982	1983	1984
1. Agriculture	212.7	219.5	196	101	428	398	413
2. Mining	131.3	133.6	196	160	164	48	74
3. Industries	932.7	941.6	2178	2122	467	1738	2499
4. Electricity & Water	197.8	227.7	357	341	62	62	117
5. Construction	34.0	29.7	99	106	446	460	488
6. Commerce	525.6	2078.7	1546	1203	1672	2914	2887
7. Transport	166.0	262.3	n.a.	n.a.	1548	1805	1778
8. Finance	186.5	614.4	861	947	550	552	1246
9. Services incl real estate	240.8	251.7	394	390	28	8	12
TOTAL	2027.6	4759.2	n.a.	n.a.	7369	7985	9514

Source: Bureau of Statistics, Table 34, The Economic Survey, 1982, 1985.

Table A2.2 PARASTATAL VALUE ADDED, PERCENT DISTRIBUTION

1. Agriculture	8.09	4.61	n.a.	n.a.	5.86	4.98	4.34
2. Mining	5.00	2.81	n.a.	n.a.	1.42	0.60	0.78
3. Industries	35.50	19.78	n.a.	n.a.	33.75	21.77	26.27
4. Electricity & Water	7.53	4.78	n.a.	n.a.	0.85	0.78	1.23
5. Construction	1.29	0.62	n.a.	n.a.	6.10	5.76	5.13
6. Commerce	20.00	43.68	n.a.	n.a.	22.88	36.49	30.34
7. Transport	6.32	5.51	n.a.	n.a.	21.18	22.60	18.69
8. Finance	7.10	12.91	n.a.	n.a.	7.52	6.91	13.10
9. Services incl real estate	9.16	5.29	n.a.	n.a.	0.38	0.10	0.13
TOTAL	100.00	100.00	n.a.	n.a.	100.00	100.00	100.00

Table A2.3 PARASTATAL VALUE ADDED, PERCENT OF SECTOR VALUE ADDED

1. Agriculture	1.70	1.49	1.18	0.56	1.62	1.22	1.00
2. Mining	38.85	47.04	57.75	53.51	39.10	19.28	21.96
3. Industries	24.17	24.34	53.16	47.15	56.57	35.70	42.64
4. Electricity & Water	75.79	82.80	84.20	80.61	14.73	12.06	21.23
5. Construction	3.23	2.42	6.61	6.55	23.94	36.74	29.38
6. Commerce	13.52	47.85	32.80	21.96	24.54	35.76	27.56
7. Transport	8.66	12.41	n.a.	n.a.	45.60	45.77	36.84
8. Finance	6.94	20.63	23.60	21.01	11.25	10.51	20.29
9. Services incl real estate	8.38	7.53	9.95	8.24	0.51	0.14	0.18
	--	--	--	--	--	--	--
TOTAL	9.19	14.73	n.a.	n.a.	13.91	13.09	12.48

APPENDIX A3 ANALYSIS OF BUREAU OF STATISTICS SURVEY

Each year the Bureau of Statistics sends a questionnaire to a sample of parastatals and publishes the results in a document entitled Analysis of Accounts of Parastatal Enterprises. The material presented in this appendix is taken from the 1984 edition which covers the years 1973 through 1982, plus unpublished materials for 1983 and 1984.

The number of firms contacted, responding and estimated (i.e., estimated and added to the responding firms) varies from year to year. This substantially reduces the value of any time-series analysis of the absolute values of these data. It is still of interest, however, to observe trends in ratios (i.e., profits to sales, sales per employee, etc.) over time. That is what this appendix focuses on (see Table A3.2).

Table A3.1 DATA USED IN ANALYSIS

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
NUMBER OF FIRMS IN SAMPLE											
Responding	115	112	115	120	119	117	132	133	136	141	113
Estimated	14	24	14	19	29	29	31	35	35	39	54
Total	129	136	129	139	148	146	163	168	171	180	167
GDP DEFLATORS	76.3	87.7	100.0	117.6	129.1	140.9	156.8	185.5	218.0	258.5	306.2
EMPLOYMENT											
1. Agriculture	11772	11066	15598	16881	17517	17300	17871	17542	18626	20232	21613
2. Mining	3002	2830	2806	2805	2857	2914	2950	3191	3986	4011	4124
3. Manufacturing	34778	35278	38443	43854	43541	53788	51948	52324	54969	55096	57842
4. Electricity	3204	3304	3677	3714	4333	6020	7850	7865	7865	7770	8374
5. Construction	3087	3122	2702	3687	3622	3789	4021	4260	2387	2396	3308
6. Commerce	12408	13339	13573	19286	15024	16256	15832	18614	20281	20057	21503
7. Transport	4023	5015	5418	5603	29567	34687	38496	39445	40828	41903	42130
8. Finance, Real Estate & Bus. Services	6751	7388	8962	10272	11284	14288	13420	14666	14710	14992	15790
9. Other Services	1032	1052	1096	1173	1184	1219	1235	1293	1620	1863	1863
TOTAL	80057	82394	92269	105875	128929	150261	153623	159060	165132	168320	175953
VALUE ADDED (mill sh.)											
1. Agriculture	207.0	123.2	171.1	215.4	211.4	221.5	240.1	279.3	420.0	397.8	413.3
2. Mining	103.5	87.9	99.7	127.5	140.6	200.0	178.6	210.3	104.4	47.8	73.9
3. Manufacturing	453.9	834.7	822.6	1017.1	1088.4	1388.7	1513.3	2172.5	2467.1	1738.3	2498.7
4. Electricity	80.1	101.4	137.4	183.2	240.4	196.2	431.5	385.1	446.5	459.9	487.9
5. Construction	8.4	16.7	40.7	27.3	84.0	37.4	47.3	55.8	66.3	61.8	116.6
6. Commerce	348.8	377.9	374.8	523.0	547.5	478.9	700.4	1189.8	1671.4	2914.1	2886.5
7. Transport	90.9	127.8	132.0	165.8	924.7	239.3	1364.6	1490.0	1548.2	1884.9	1777.5
8. Finance, Real Estate & Bus. Services	73.6	93.5	113.1	132.0	351.3	835.0	541.2	388.8	549.5	552.2	1246.0
9. Other Services	10.0	18.9	175.6	167.4	177.9	188.0	116.0	8.4	27.8	8.5	12.2
TOTAL	1376.2	1782.0	2067.0	2558.7	3716.2	3785.0	5073.0	6096.0	7389.2	7985.3	9512.6

Table A3.1, Continued

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
PROFIT BEFORE TAX (mill. sh.)											
1. Agriculture	86.7	88.0	56.4	76.2	72.9	71.6	89.9	99.3	156.2	64.7	72.3
2. Mining	67.8	59.0	62.2	92.3	108.0	102.6	78.8	95.5	7.0	-49.8	-29.1
3. Manufacturing	7.3	333.3	312.2	456.6	517.9	661.5	685.7	917.7	810.7	256.8	770.7
4. Electricity	8.6	13.6	26.2	58.3	101.6	26.0	282.6	106.5	170.6	140.9	89.5
5. Construction	-3.5	4.9	4.4	10.4	11.0	12.0	15.2	6.6	37.9	23.5	46.0
6. Commerce	220.9	256.5	245.6	326.7	265.3	196.3	382.5	690.0	1054.7	2257.2	2155.8
7. Transport	25.9	22.2	13.7	55.6	332.5	-431.5	514.2	232.4	204.4	347.3	232.7
8. Finance, Real Estate & Bus. Services	232.2	271.0	359.0	406.3	733.2	1154.7	856.3	617.6	927.9	1026.4	1706.1
9. Other Services	0.8	7.4	171.8	161.8	170.5	171.8	15.3	-5.4	-5.1	-25.6	-21.7
TOTAL	646.7	1004.9	1251.5	1644.2	2312.9	1899.6	2900.5	2755.2	3364.3	4041.4	5016.3
SALES REVENUE (mill. sh.)											
1. Agriculture	231.6	169.5	205.4	242.9	241.6	259.2	273.6	335.4	619.7	617.6	647.1
2. Mining	130.3	164.6	149.5	154.1	167.6	196.2	229.6	332.1	334.2	355.4	385.7
3. Manufacturing	2221.1	2669.0	3913.9	4642.9	4720.7	6125.6	7238.2	8537.8	10380.2	10787.0	13581.5
4. Electricity	141.0	154.9	197.7	248.9	275.9	305.9	488.9	509.6	768.2	732.8	969.4
5. Construction	64.0	57.5	104.3	103.9	130.0	143.0	154.7	92.7	96.8	238.6	373.3
6. Commerce	3519.6	3227.7	2147.4	3696.4	4241.3	4239.8	4943.5	13476.9	14934.9	14205.3	18485.8
7. Transport	159.7	203.7	236.6	275.2	1673.1	1402.9	1925.5	2664.7	2893.5	3274.6	4123.9
8. Finance, Real Estate & Bus. Services	216.4	264.2	625.7	827.7	1452.8	1794.9	2027.5	863.7	944.5	1777.9	2234.5
9. Other Services	16.8	24.5	9.8	15.9	24.9	64.3	170.0	19.3	33.3	41.3	43.3
TOTAL	6700.5	6935.6	7603.4	10201.9	12927.9	14666.2	17556.4	26873.2	30963.1	31739.2	40777.4
LABOR COSTS (mill. sh.)											
1. Agriculture	103.5	73.4	95.5	116.6	114.7	122.7	120.7	143.9	206.4	220.2	228.7
2. Mining	32.4	28.7	32.6	30.2	30.4	33.4	35.4	48.3	53.3	54.3	60.3
3. Manufacturing	282.4	318.7	320.1	342.6	354.7	456.6	469.9	701.8	854.7	790.7	878.4
4. Electricity	30.4	37.1	40.9	49.7	53.3	68.6	57.2	85.5	101.6	120	144.5
5. Construction	23.4	24.2	24.1	26.6	35.4	39	43.4	31.7	11.9	30	69.8
6. Commerce	82	73.6	109.1	157.5	222	226.8	305.7	380.8	435.6	382.7	410.3
7. Transport	38.5	63	69.4	53.5	450.7	528.1	673.5	841	997.9	1088.3	1094.2
8. Finance, Real Estate & Bus. Services	66.9	105.8	126.3	138.8	157	177	215.6	234.1	284.4	338.1	446.9
9. Other Services	8.1	10.1	11.2	12.8	14.4	18.3	25.1	5.7	25.7	27.3	27.3
TOTAL	687.6	784.6	829.2	928.3	1432.6	1664.5	1946.5	2473.1	2971.5	3551.6	3360.4

Table A3.1, Continued

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LABOR COSTS PER EMPLOYEE, 76 PRICES											
1. Agriculture	11.528	7.568	6.128	5.873	5.672	5.634	4.307	4.422	5.063	4.216	3.554
2. Mining	14.145	11.564	11.643	9.155	8.242	8.135	7.653	8.160	6.134	5.237	4.775
3. Manufacturing	10.642	10.301	8.327	6.767	6.316	5.946	5.769	7.231	7.132	5.552	4.960
4. Electricity	12.435	12.004	11.123	11.379	9.528	8.068	4.647	5.965	5.971	5.974	5.635
5. Construction	9.935	8.839	8.919	7.327	7.571	7.305	6.884	4.011	2.366	4.044	6.091
6. Commerce	8.661	6.292	8.038	6.944	11.446	9.902	12.314	11.028	9.052	7.381	6.232
7. Transport	12.543	14.324	12.809	8.119	11.807	10.805	11.158	11.494	11.212	10.647	8.482
8. Finance, Real Estate & Bus. Services	16.875	16.329	14.693	11.498	10.777	8.792	10.246	8.648	8.869	8.724	9.248
9. Other Services	10.287	10.947	10.219	9.279	9.421	10.655	12.962	2.376	7.277	5.669	4.706
TOTAL	11.257	10.166	8.987	7.456	8.607	7.862	8.081	8.381	8.254	7.013	6.237

Source: Bureau of Statistics, Analysis of Accounts of Parastatals, 1974-1984

Table A3.2 ANALYTICAL TABLES

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
PROFITS TO SALES RATIO (%)											
1. Agriculture	37.4	22.4	27.5	31.4	36.2	27.7	32.9	29.6	25.2	16.5	11.2
2. Mining	52.0	35.2	41.6	59.9	64.4	52.3	34.3	27.3	2.1	-14.0	-7.5
3. Manufacturing	6.3	12.5	8.0	9.8	11.0	9.8	9.5	10.7	7.8	2.4	5.7
4. Electricity	6.1	8.8	13.3	23.4	36.8	8.5	57.8	20.9	22.2	19.2	9.2
5. Construction	-5.5	8.5	4.2	10.0	8.5	8.4	9.8	7.1	38.4	9.8	10.7
6. Commerce	6.3	7.9	11.4	8.9	6.3	4.5	7.3	5.1	7.1	15.9	11.7
7. Transport	16.2	10.9	5.8	20.2	19.9	-30.8	26.7	8.7	7.1	10.6	5.6
8. Finance, Real Estate & Bus. Services	107.3	102.6	57.4	49.1	50.5	64.3	42.2	71.5	90.2	57.7	76.4
9. Other Services	4.8	36.2	1753.1	1017.6	684.7	267.2	9.0	-28.6	-15.3	-62.0	-50.1
TOTAL	9.7	14.5	10.4	10.1	17.9	12.9	16.5	10.3	10.9	12.7	12.3
SALES PER EMPLOYEE, 1976 PRICES (1000 sh.)											
SALES AT 76 PRICES											
1. Agriculture	25.8	17.5	13.2	12.2	10.7	10.6	9.8	10.3	15.3	11.8	10.1
2. Mining	56.9	66.3	53.4	46.7	45.4	47.8	49.6	56.1	38.5	34.3	30.5
3. Manufacturing	83.7	86.3	101.8	91.7	84.0	80.8	88.9	88.0	86.6	75.7	76.7
4. Electricity	57.7	58.5	53.8	57.0	49.3	36.1	39.7	35.2	45.1	36.5	37.8
5. Construction	27.2	21.0	38.6	28.6	27.8	26.8	24.5	11.7	19.6	38.5	36.9
6. Commerce	371.8	275.9	158.2	162.7	218.7	185.1	199.1	390.3	337.8	274.0	280.8
7. Transport	52.0	46.3	43.7	41.8	43.8	28.7	31.9	36.4	32.5	30.2	32.0
8. Finance, Real Estate & Bus. Services	42.0	46.8	69.8	68.5	99.7	89.2	96.4	31.9	29.5	45.9	46.2
9. Other Services	21.3	26.6	8.9	11.5	16.3	37.4	37.8	8.6	9.4	8.6	7.6
TOTAL	109.7	96.0	82.5	81.9	77.7	69.3	72.9	91.1	86.0	72.9	75.7
SALES PER UNIT LABOR COST											
1. Agriculture	2.238	2.309	2.151	2.083	2.106	2.104	2.267	2.331	3.002	2.805	2.829
2. Mining	4.022	5.735	4.586	5.103	5.513	5.874	6.486	6.876	6.278	6.545	6.396
3. Manufacturing	7.865	8.375	12.227	13.552	13.309	13.594	15.464	12.166	12.145	13.642	15.462
4. Electricity	4.638	4.175	4.834	5.008	5.176	4.459	6.547	5.966	7.561	6.107	6.769
5. Construction	2.735	2.376	4.328	3.906	3.672	3.667	3.565	2.924	8.363	7.953	5.348
6. Commerce	42.922	43.855	19.683	23.431	19.105	18.694	16.171	35.391	34.286	37.119	45.054
7. Transport	4.148	3.233	3.409	5.144	3.712	2.657	2.859	3.168	2.906	3.609	3.769
8. Finance, Real Estate & Bus. Services	2.496	2.497	4.954	5.963	9.254	10.141	9.464	3.689	3.321	5.259	5.600
9. Other Services	2.074	2.426	0.875	1.242	1.729	3.514	6.773	3.386	1.296	1.513	1.586
TOTAL	9.745	9.441	9.176	10.990	9.024	8.811	9.019	10.866	10.426	10.401	12.135

APPENDIX A4 INVESTMENT AND SOURCES OF SAVINGS

Table A4.1 CAPITAL FORMATION

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Million Shillings, Current Prices															
Parastatals (FCF)	1084.00	1186.00	1158.00	1096.00	1098.00	970.00	2807.00	2528.00	2372.00	2543.00	2282.00	3905.00	2102.00	2997.00	3054.00
Other public (FCF)	586.00	527.00	668.00	961.00	1096.00	1258.00	1820.00	1426.00	2032.00	2330.00	2485.00	2391.00	1639.00	1988.00	2192.00
Private (FCF + incr in stocks)	921.00	746.00	936.00	1459.00	1810.00	2533.00	3939.00	4532.00	5504.00	5328.00	6982.00	9965.00	5170.00	6208.00	9195.00
Total	2591.00	2439.00	2760.00	3516.00	4004.00	4761.00	7566.00	8486.00	9908.00	10201.00	11729.00	12990.00	8911.00	11098.00	14442.00
Million Shillings, 1978 Prices															
Parastatals (FCF)	1998.72	2022.47	1804.01	1485.04	1252.46	970.00	2216.93	1958.40	1683.97	1621.91	1219.25	1653.69	813.18	946.08	778.81
(82 Survey)	1998.72	2022.47	1804.01	1485.04	1252.46	970.00	802.76	1064.41	912.27	984.12	906.55	827.53			
Other public (FCF)	3079.21	2936.57	2841.56	2698.81	2502.65	2228.00	3339.43	3063.10	3126.56	3107.98	2568.71	2740.40	1447.24	1546.81	1887.20
Private (FCF + incr in stocks)	851.38	819.38	898.78	1049.24	1384.83	2228.00	2326.63	2615.88	2973.21	2346.20	2633.09	2225.25	1289.79	1490.16	1810.46
Total	5929.28	5778.41	5544.30	5177.59	5139.94	5426.00	7863.00	7636.83	7783.74	7128.09	6411.05	6619.86	3550.21	4081.85	3925.98
Percent of Total															
Parastatals	41.84	47.61	41.96	31.17	27.42	20.37	33.14	29.79	23.94	24.93	19.29	27.86	23.59	26.12	21.15
Other public	22.62	21.61	24.13	27.33	27.37	26.42	16.76	16.80	20.51	22.84	21.19	18.31	18.39	17.92	15.18
Private	35.55	30.59	33.91	41.50	45.20	53.20	50.08	53.41	55.55	52.23	59.53	53.83	58.02	55.96	63.67
Percent of GDP															
Parastatals	12.24	11.62	10.08	7.82	6.46	4.48	10.14	8.84	7.34	6.79	5.15	6.86	3.44	3.88	3.12
Other public	6.62	5.25	5.80	6.86	7.45	5.81	5.14	4.99	6.29	6.22	5.56	4.51	2.69	2.66	2.24
Private	10.40	7.44	8.15	10.41	13.65	11.70	15.33	15.86	17.03	14.23	15.90	13.26	8.47	8.22	9.41
Total	29.26	24.31	24.02	25.10	23.57	21.99	30.61	29.69	30.66	27.24	26.71	24.62	14.60	14.87	14.77
Other Indicators															
Deflator (78=100) (82 & 85 Surve	0.54	0.58	0.64	0.76	0.88	1.00	1.18	1.29	1.41	1.57	1.86	2.18	2.58	3.06	3.92
GDP, factor cost, current price	8856	10032	11490	14010	16988	21652	25698	28582	32317	37454	43903	52548	61085	74608	97767
(82 Survey)	8856	10032	11490	14010	16988	20842	25578	29657	32572	36176	39622	42100			

SOURCES: Bureau of Statistics, Table 7, The Economic Survey [illegible] 22, 1985.
First row uses 1982 survey through 1975; row marked "(82 Survey)" uses only that Survey

Table A4.2 SOURCES OF SAVINGS

	1979	1980	1981	1982	1983	1984
Million Shillings						
Foreign (Current Account Balance)	3252.0	4605.1	2280.3	5004.0	4380.9	5989.1
Parastatals (retained profits(1))	803.6	1676.8	1296.5	524.6	2612.8	2393.2
Central Government (Recurrent Surplus)	-1477.4	-1367.9	-2192.0	-1990.3	-2221.5	-2903.8
Residual (2)	5868.8	3572.0	8539.2	6023.7	6320.8	8963.5
Total (Total Capital Formation)	8447.0	8486.0	9924.0	9562.0	11093.0	14442.0
Percent of Total						
Foreign (Current Account Balance)	38.5	54.3	23.0	52.3	39.5	41.5
Parastatals (retained profits(1))	9.5	19.8	13.1	5.5	23.6	16.6
Central Government (Recurrent Surplus)	-17.5	-16.1	-22.1	-20.8	-20.0	-20.1
Residual (2)	69.5	42.1	86.0	63.0	57.0	62.1

Notes: (1) Retained profits is net profits minus taxes and dividends paid. Most of these profits are contributed by the Bank of Tanzania and the National Bank of Commerce. If these were excluded, the parastatal contribution would be very significantly smaller. These numbers come from Bureau of Statistics, Analysis of Accounts of Parastatal Enterprises, 1974-1984. This publication provides the following figures for parastatal fixed capital formation starting with 1974: 871.7, 1173.3, 1339.1, 11915.5, 1936.7, 1484.1, 1895.1, 2174.0, 3630.5, 2017.3, 2751.8. These figures are generally smaller than those for parastatal fixed capital formation in Table A4.1, apparently because this publication uses a subset of all parastatals for its analysis.

(2) The estimates for parastatal savings are based on data gathered by the Bureau of Statistics for between 100 and 150 (depending on the year) parastatals. Since this is not a complete set, the residual includes some parastatal savings as well as private savings.

APPENDIX A5 PARASTATALS REMITTING DIVIDENDS

1981/82-1984/85
(T Shillings)

Parastatals	1981/82	1982/83	1983/84	1984/85	Total
Tanzania Audit Corp.				10,000,000.00	10,000,000.00
Tanzania Cigarette Co. Ltd.	12,000,000.00	24,000,000.00	17,000,000.00	25,000,000.00	78,000,000.00
Kagera RTC				500,000.00	500,000.00
Mtwara RTC				250,000.00	250,000.00
Bank of Tanzania	152,002,562.85	263,648,712.00	388,763,936.23	816,267,677.00	1,631,782,888.10
BP Tanzania				10,687,941.00	10,687,941.00
Natl. Bank of Commerce	25,000,000.00	35,000,000.0	25,000,000.0	35,000,000.00	120,000,000.00
Dar es Salaam RTC				1,000,000.00	1,000,000.00
Tanzania Investment Bank			3,000,000.00	6,000,000.00	9,000,000.00
NAPCO				3,000,000.00	3,000,000.00
AISCO			2,000,000.00		2,000,000.00
GEFCO			1,500,000.00		1,500,000.00
DARTEX			2,000,000.00		2,000,000.00
Arusha RTC			500,000.00		500,000.00
Agricultural & Industrial Supplies Co. Ltd.		3,000,000.00			3,000,000.00
Dar es Salaam Textile		1,400,000.00			1,400,000.00

APPENDIX A5 (continued)

Parastatals	1981/82	1982/83	1983/84	1984/85	Total
General Food Co.					0.00
Household Supplies Co. Ltd.		1,529,490.00			1,529,490.00
Natl. Insurance Corp.		4,000,000.00			4,000,000.00
Natl. Shipping Agencies Co.		500,000.00			500,000.00
DSN Textile Co. Ltd.	500,000.00				500,000.00
AGIP Tanzania Ltd.	1,936,870.00				1,936,870.00
Tazama Pipelines Co.	6,596,680.00				6,586,680.00
Kigoma RTC	100,000.00				100,000.00
NASACO	100,000.00				100,000.00
Domestic Appliance Bicycle Co.	1,254,616.00				1,254,616.00
TOTAL	199,576,728.85	333,678,282.00	362,983,956.25	406,705,618.00	1,300,438,585.10

APPENDIX A6 EXTERNAL FUNDS ONLENT TO PARASTATALS BY TREASURY

Parastatal	Source	Amount	Date of Initiation	Date of Last Payment	Interest
Tanzania Leather	EEC	EUA 12,450	1977	1999	1-5%
Associated Industries	IBRD	$23,000	1977	1995	10%
Kilombero Sugar Co. Ltd.	Netherlands and Denmark	Tsh100,000	1979	2011	7%
	IDA, IBRD	$18,000	1979	1998	9%
Capital Development Authority	Zimbabwe	$10,000	-	1992	7%
Morogoro Polyester Textiles Ltd.	IDA, IBRD	$45,000	1979	1994	10%
Tanzania Tourist Corporation	IDA	$14,000	-	1999	10%
Cooperative and Rural Development Bank	IDA	Tsh124,500	-	1988	4%
	IDA	$10,000	-	1995	3 1/3%
	IDA	Tsh6,810	-	1999	4%
	IDA	Tsh61,962	1972	1999	4%
	IDA	Tsh17,215	1970	1985	4%
	KfW	DM5,000	1975	2023	3 1/2%
	IDA	$18,000	1976	1995	4%
	BADEA	$5,000	1976	1995	4%
	IDA	$8,000	1976	1999	4%
	FRG	Tsh2,500	-	-	3 1/2%
	FRG	Tsh25,811	-	-	3 1/2%
	IDA	Tsh85,999	-	-	4%
	IDA	Tsh32,945	1971	1986	3 1/4%
	ICO	Tsh8,429	-	1992	4%
	IFAD	SDR14,500	1986	2002	9 1/2%
	IDA	-	-	-	-
	IDA	-	-	-	-
	FAO	$2,000	1986	-	7 1/2%
State Motor Corporation	Japan	Tsh55,027	1979	-	4%
National Bank of Commerce	Sweden	SEK5,000	1985	1994	4%
Tanzaniaq Investment Bank	CIDA	Tsh13,933	1975	2021	NIL
	CIDA	Tsh4,400	-	2025	NIL
	CIDA	C$1,000	1971	2021	NIL
	Dutch	Tsh3,925	-	2025	3/4%
	Dutch	Tsh12,742	-	-	NIL

APPENDIX A6 (continued)

Parastatal	Source	Amount	Date of Initiation	Date of Last Payment	Interest
	Dutch	Tsh11,884	-	2025	3/4%
	Dutch	DFl1,065	-	-	2 1/2%
	Dutch	Tsh28,360	-	-	-
	Dutch	Tsh7,660	-	1980	2 1/2%
	Sweden	SEK8,000	1965	2000	8%
	SIDA	Tsh8,530	-	1994	4%
	SIDA	Tsh19,000	-	-	-
	NORAD	NK2,322	-	-	-
	Finland	Tsh4,411	-	2000	3/4%
	Finland	Tsh12,066	-	-	-
	IDA	Tsh22,012	-	1989	7 1/4%
	ADB	Tsh12,500	0	1991	6%
	KfW	Tsh23,000	0	2013	3/4%
	KfW	Tsh5,000	-	2007	3/4%
Tanzania Tobacco Processing Co. Ltd.	IDA	$8,000	1977	1984	10%
Tobacco Authority of Tanzania	IDA	$4,000	1978	1988	10%
National Agricultural Food Corporation	U.K.	L990	-	-	8%
	ADB	UA4,500	1981	2000	9%
	ADB	UA5,200	1978	2007	5%
	ADB	UA3,400	1981	2016	1%
Friendship Textile Mill	China	Tsh7,000	1974	2000	2 1/2%
AGIP	Italy	$7,400	1985	?	3 8/10%
	Italy	$1,305	1987	?	1 12/10%
Livestock Development Authority	Denmark	Tsh12,325	-	-	-
	IDA	Tsh9,264	1969	-	-
Cashewnut Authority of Tanzania	Japan	Tsh5,167	-	-	-
	IBRD, IDA	Tsh213,302	1978	-	-
National Textile Corporation	Japan	Tsh3,961	-	-	-
	China	Tsh40,000	1971	1988	6%
Tanzania Harbours Authority	Netherlands	Tsh18,400	1980	1991	6%
	IDA	SDR26,200	1985	2010	11%
Mwanza Textile Company	IBRD	$14,000	1975	1988	10%
	KFAED	KD4,500	1975	1990	10%
Ubungo Farm Implement	China	Tsh2,500	1977	1990	6%

APPENDIX A6 (continued)

Parastatal	Source	Amount	Date of Initiation	Date of Last Payment	Interest
Small Industries Development Org. & Tanzania Housing Bank	IDA	$12,000	1978	1987	8%
Small Industries Development Org.	IDA	Tsh8,524	1978	1987	8%
Tanzania Housing Bank	CIDA	Tsh14,500	1974	2021	2 1/2%
	IDA	$2,000	1974	1991	8%
	IDA	$11,537	1977	1987	8%
Tanzania Electricity	IBRD	$30,000	1977	2001	8 17/20%
Supply Company	Sweden	SKr80,000	1977	2003	6 3/10%
	KfW	DM60,000	1977	2001	8 1/2%
	KfW	DM10,000	1981	2006	8 1/2%
	CDC	L2,053	1982	1993	8%
	Canada	Tsh13,027	1968	1977	8 1/4%
	Sweden	Tsh573,333	1970	1996	7 1/4%
	IDA	$37,300	1986	2006	9%
	IDA	SDR34,700	1986	2006	9%
	OPEC	$5,000	-	1995	7 1/2%
	ADB	UA8,000	-	1995	7 1/2%
	CDC	GBP3,350	-	1995	8 1/2%
	EEC	Tsh58,100	-	2003	8 1/2%
Tanzania Railways Corporation	KfW	DM24,000	1979	2007	4%
National Chemical Industries	Dutch	DFl4,000	1982	1990	4 1/2%
Tanzania Posts and Telecommunications Corporation	IBRD	L197,184	1949	1979	3%
National Transport Company	NORAD	Tsh2,103	1970	1988	7%
National Development Corporation	SIDA	Tsh10,007	1969	2018	4%
	DEG	DM5,059	1984	2012	8%
Tanzania Cotton Authority (now Tanzania Cotton Marketing Board)	Dutch	DFl1,000	1982	1990	10%
Tanzania Saruji Corporation	Denmark	DKr64,550	1981	2002	6%
	Denmark	Tsh352,130	-	2010	6%
	Denmark	DKr24,527	1971	1987	4
	France	FRS70,000	1980	1995	8%

APPENDIX A6 (continued)

Parastatal	Source	Amount	Date of Initiation	Date of Last Payment	Interest
Southern Paper Mills Co. Ltd.	Sweden	$14,850	1988	2000	10%
	IBRD	$36,000	1988	2000	10%
	IDA	$9,900	1988	2000	10%
	NIB	$12,500	1988	2000	10%
	CDC	L9,900	1988	1999	10%
	OPEC	$5,000	1988	1998	10%
Tanzania Pharmaceutical Industries Ltd.	Finland	FIM1,000	1985	1989	4%
Tanzania Wood Industries Corporation	KfW	DM13,900	1985	1998	9%
Tanzania Sisal Authority (now Tanzania Sisal Marketing Board)	EEC	Tsh44,253	1987	1997	NIL
Amboni Estate Ltd.	EEC	Tsh13,565	1987	1997	
National Bank of Commerce	FRG	DM4,850	1987	1989	4%
	Sweden	SKr6,000	1987	1995	4%
	Sweden	SKr5,000	1986	1995	4%

APPENDIX A7 PARASTATALS WITH PROFITS OR LOSSES EXCEEDING SHS 5 MILLION

Account Year	Profits: Company	Profits Before Tax	Losses: Company	Losses
1981	Tanganyika Packers Limited	16.3	Small Industries Dev. Org.	71.3
	Tanzania Harbours Authority	270.6	University of Dar es Salaam	16.6
	Tanzania Sisal Authority	33.8	Tanganyika Packers Ltd.	13.6
	Tanzania Dairies Limited	25.4		
	Tanzania Portland Cement Co.Ltd.	22.2		
1982	Tanzania Harbours Authority	215.6	Tobacco Auth. of Tanzania	134.9
	Tanzania Dairies Ltd.	54.1	Tanzania Railways Corp.	116.1
	National Provident Fund	24.8	Air Tanzania Corp.	79.7
	Mwananchi Engineering & Contracting Co. Ltd.	29.8	National Milling Corp.	33.7
			Small Industries Dev. Org.	26.6
	Tanzania Breweries Ltd.	19.9	Dakawa Rice Farms Ltd.	21.3
	National Distributors Ltd.	10.7	National Bicycles Co. Ltd.	16.8
	Tanzania Film Co. Ltd.	8.2	Tanganyika Packers Ltd.	15.9
	Tanzania Livestock Dev. Auth.	5.7	Tanzania Cordage Ltd.	11.9
	Rukwa Regional Trading Co. Ltd.	5.2	National Housing Corporation	8.6
			Mbeya Regl. Trading Co. Ltd.	7.1
1983	Tanzania Harbours Authority	96.5	Cashewnut Auth. of Tanzania	151.4
	Tanzania Dairies Ltd.	69.5	Musoma Textiles Ltd.	117.6
	Tanzania Breweries Ltd.	67.6	Tobacco Auth. of Tanzania	45.8
	Building Hardware & Electrical Supplies Co. Ltd.	41.6	Tanga Cement Co. Ltd.	38.3
			Dakawa Rice Farms Ltd.	34.9
	Kibo Paper Industries Ltd.	37.5	Nyanza Salt Mines (T) Ltd.	36.6
	Arusha Regl. Trading Co. Ltd.	28.6	Small Industries Dev. Org.	28.6
	National Provident Fund	22.4	Minjingu Phosphate Co. Ltd.	24.4
	Kiwanda cha Zana za Kilimo Ubungo Ltd.	21.6	Buck Reef Gold Mining Co.Ltd.	19.3
			Tanganyika Packers Ltd.	18.7
	Tanzania Portland Cement Co.Ltd.	19.2	Tanzania Cordage Ltd.	16.6
	Air Tanzania Corporation	17.6	National Housing Corporation	14.7
	Tanga Regional Trading Co. Ltd.	15.5	Tanzania Livestock Res. Org.	12.5
	Tanzania Bag Corporation	14.4	Tanzania Elec. Supply Co.Ltd.	12.2
	Tanzania Distilleries Ltd.	14.1	Singida Regl. Trading Co.Ltd.	11.8
	Mwanza Regional Trading Co. Ltd.	14.6	Kagera Regl. Trading Co. Ltd.	8.9
	National Pharmaceuticals Co. Ltd.	13.4	Mara Regional Trading Co.Ltd.	8.7
	Karadha Co. Ltd.	12.5	Mwanza Tanneries Ltd.	7.7
	Office of the Registrar of Bldgs.	10.7	Tanzania Tea Authority	7.4
	General Tyre (E.A.) Ltd.	9.8	Tanzania Pharmaceutical Industries Ltd.	7.3
	Tanzania Film Co. Ltd.	9.3		
	Tanzania Fishnet Industries Ltd.	9.1	Coast Regl. Trading Co. Ltd.	7.3
	National Development Corporation	9.0	Tanzania Tobacco Processing Co. Ltd.	6.9
	Basotu Plantations Ltd. 8.6	8.6		
	Tanganyika Dyeing & Weaving Mills Ltd.	8.6	Sambuni Industries Ltd.	6.0
			Institute of Dev. Mgmt.	6.6

APPENDIX A7 (continued)

Account Year	Profits: Company	Profits Before Tax	Losses: Company	Losses
	Kilimanjaro Textile Corp. Ltd.	8.1	Mang'ula Mechanical & Machine Tools Co. Ltd.	5.8
	Tanzania Standard (N) Ltd.	7.8	Kivukoni College	5.2
	Tanganyika Tegry Plastics (T) Ltd.	7.6		
	Tanzania Tanneries Ltd.	6.7		
	Sao Hill Sawmills Ltd.	6.7		
	Lindi Regional Trading Co. Ltd.	6.6		
	Tanganyika Instant Coffee Co. Ltd.	6.4		
	Mtwara Regional Trading Co. Ltd.	6.1		
	Iringa Regional Trading Co. Ltd.	5.9		
	Farm Machinery Distributors (T) Ltd	5.4		
	Tanzania Fertilizer Co. Ltd.	5.1		
1984	National Bank of Commerce	779.5	Mwanza Textiles Ltd.	251.6
	Bank of Tanzania	330.3	Kilimanjaro Textile Corp. Ltd.	21.6
	Tanzania Cigarette Co. Ltd.	197.8	Tanganyika Pyrethrum Board	29.1
	Tanzania Investment Bank	116.1	Tanzania Coastal Shipping Line Ltd.	26.6
	Agip (T) Ltd.	84.6	National Transport Corp.	18.6
	Tanzania Petroleum Dev. Corp.	74.1	Serengeti Safari Lodges Ltd.	14.6
	Aluminum Africa Ltd.	73.2	Tanzania Tobacco Processing Co. Ltd.	8.9
	Tanzania Elimu Supplies Ltd.	59.2	Capital Construction Equipment Co. Ltd.	8.3
	Shirika la Usafiri Dar es Salaam Ltd.	51.2	Steel Rolling Mills Ltd.	7.3
	Building Hardware & Electrical Supplies Co. Ltd.	45.3	Sugar Development Corp.	6.3
	General Tyre (E.A.) Ltd.	40.4	Institute of Adult Education	6.1
	Tanzania & Italian Petroleum Refining Co. Ltd.	38.3		
	State Motor Corp.	33.4		
	Workers & Farmers Housing Development Fund	32.7		
	General Foods Co. Ltd.	24.8		
	Mbeya Regl. Trading Co. Ltd.	23.7		
	Tanzania Tractors Manufacturing Co. Ltd.	22.3		
	Dar es Salaam Textile Co. Ltd.	21.8		
	Kariakoo Markets Corp.	21.6		
	Tanzania Automobile Manufacturing Co. Ltd.	20.2		
	Shinyanga Regl. Trading Co. Ltd.	17.9		
	TPC Limited	16.2		
	Tanzania Wildlife Corp.	15.1		
	Kampuni ya Uchukuzi Dodoma Ltd.	14.6		
	Karadha Co. Ltd.	14.5		
	Mtibwa Sugar Estates Ltd.	14.1		
	Morogoro Regl. Trading Co. Ltd.	13.7		
	Stationery & Office Supplies (T) Ltd.	13.6		
	Printpak (T) Ltd.	13.1		

APPENDIX A7 (continued)

Account Year	Profits: Company	Profits: Profits Before Tax	Losses: Company	Losses: Losses
	Dar es Salaam Regl. Trading Co.Ltd.	12.8		
	Tanzania Tea Authority	11.8		
	Rukwa Regl. Trading Co. Ltd.	10.2		
	Tanzania Cables Ltd.	8.7		
	National Engineering Co. Ltd.	8.5		
	Dodoma Regl. Trading Co. Ltd.	8.2		
	Stone Valley Tea Co. Ltd.	7.8		
	Kilimanjaro Regl. Trading Co. Ltd.	6.7		
	Kampuni ya Uchukuzi Ruvuma Ltd.	6.6		
	THB Estates Co. Ltd.	6.5		
	Tanzania Rural Development Bank	5.7		
	Kampuni ya Uchukuzi Mtwara Ltd.	5.4		
	National Textile Corporation	5.2		

* Non-Commercial

APPENDIX A8

FINANCIAL PERFORMANCE OF SELECTED PARASTATALS

Selected Basic and Metal Industry Parastatals

1. Development Corporation (NDC) companies produce a range of products in the metal working, electrical engineering, iron and steel, and pulp and paper sectors. Table A8.1 presents consolidated group financial performance for 1985 and estimates for 1986. The 1985 figures on pre-tax profits as a percent of sales and return on investment reflect the access of these companies, most of which are heavily dependant on imports, to relatively cheap imported raw materials and inexpensive credit. In anticipation of an increase in costs due to the devaluation of the currency and increases in interest rates, the forecasts for 1986 show a negative return on investment despite a 77 percent increase in net sales revenue. In fact the forecasts may well underestimate the negative impact of the devaluation and the credit squeeze on the NDC companies and have to be modified downward.

Table A8.1

NATIONAL DEVELOPMENT CORPORATION, NDC CONSOLIDATED FINANCIAL PERFORMANCE, 1985-1990

	Actual	Estimate	
	1985	1986	1987
Net Sales Revenue (Shs. M)	1913.8	3391.7	4418.1
Pre-tax Profit as % of net sales	17	5	9
Return on Investment %	9	(1)	7

2. The information on past profits of a sample of NDC companies in Table A8.2 shows that, despite dominant positions in the local market, with two exceptions (Tanzania Oxygen and Tanzania Cables) the sample firms made small profits or losses. Furthermore, the profits of these firms are misleading. A recent study 1/ indicates that many of these firms have negative value added at international prices despite their positive financial returns. Tanzania's prices are moving closer to international prices. As that happens the true cost of these companies will become clear and unless they can substantially change their production methods, their financial performance will worsen.

1/ World Bank, Tanzania: An Agenda for Industrial Recovery, June 30, 1987.

Table A8.2

TANZANIA: PROFITS OF SELECTED SUBSIDIARIES OF THE NATIONAL DEVELOPMENT CORPORATION
(TSh.Millions)

	1982	1983	1984	1985
Steel Rolling Mills	0.6	4.5	(7.9)	14.9
Tanzania Oxygen Co. Ltd	8.0	21.4	19.3	36.4
Tanzania Cables Co. Ltd	N.A	N.A.	11.4	16.3
TANELEC	(24.3)	0.5	5.6	9.8
Mang'ula Mechanical Co.	(2.9)	1.0	1.3	1.2
National Engineering Co.	5.2	6.5	8.0	9.1
Motor Mart (T) Ltd.	0.6	0.5	1.6	1.4
Metal Box (T) Ltd	24.5	12.0	0.6	(1.6)
TWACO	N.A.	N.A.	N.A.	(0.5)
Kilimanjaro Machine Tools	N.A.	(1.2)	(16.2)	N.A.

Source: Consolidated NDC Group Company Plan, March 1986

Selected Agricultural Parastatals

3. Over the past five years the agricultural parastatals have been a major financial drain on the limited resources in the Tanzanian economy. In 1982 eleven agricultural parastatals lost over TSh. 2.2 billion and in the same year these agricultural crops authorities accounted for 80 percent of the total overdraft facilities of the National Bank of Commerce. From 1983 to 1985 the agricultural marketing boards and operating companies in cotton, cashewnuts, sisal, tobacco and tea made substantial losses (see Table A8.3). In addition, these parastatals, most of which were established with little equity, have relied heavily on overdrafts to finance their operations. In the most extreme case, the cotton parastatal sector had outstanding overdrafts in 1983 of TSh. 1.5 billion, more than twice its total sales. Although the current ratio (current assets to current liabilities), is greater than all the sectors except cashewnuts, these figures are misleading since overdrafts were being used to finance the day to day working capital requirements of the enterprises. The high interest burden of these loans has had a deleterious impact on the financial profitability of these parastatals and has placed a significant burden on both the enterprises themselves and the financial sector.

4. An important factor explaining the financial performance of the agricultural parastatals has been the overvalued Tanzanian shilling which has made most of these commodities uncompetitive in international markets. This factor combined with the fall in international commodity prices over the past few years has left the agricultural sector exposed to reduced sales earnings without concomitant reductions in costs. The rising unit costs in these companies cannot be tackled without more efficient stock control and working capital management.

5. The recent changes in the macro-economic environment, most notably the devaluation of the currency, should auger well for most agricultural parastatals. With improvements in internal financial controls these enterprises should begin to earn financial surpluses especially if the expected supply response from producers and the recently re-introduced cooperatives is forthcoming.

Selected Board of Internal Trade Companies

6. The Board of Internal Trade (BIT) and its National and Regional Trading Companies were established in 1973 following the dissolution and reorganization of the State Trading Company. The main objective of the BIT and its operating companies is "to consolidate public ownership and control of the major means of distribution".

7. The Board reviews and approves companies corporate plans, and budgets, arranges finance for companies and provides a range of financial and management information systems advice. In return, the companies should provide monthly reports to BIT including comprehensive data on sales, gross profits, operating expenses, net profit, stocks, trade debtors, balance sheets and cash flows. In practice, not all of the companies have the internal financial systems capable of providing this data and where it is available the information tends to be an average of two months in arrears.

Table A8.8 FINANCIAL PERFORMANCE: SELECTED AGRICULTURAL PARASTATALS

		NET PROFIT (TSHS M)	TOTAL SALES (TSHS M)	BANK OVERDRAFT (TSHS M)	CURRENT RATIO	NET PROFITS AS % OF CAPITAL EMPLOYED
COTTON	1983	(545.0)	725.6	1491.4	1.2	(83.1)
	1984	(466.3)	1266.4	1882.6	1.0	(197.2)
	1985	(523.1)	1131.4	N.A.	N.A.	N.A.
CASHEW NUTS	1983	(175.2)	215.4	298.2	0.5	(82.3)
	1984	(163.6)	373.6	552.0	0.7	(35.7)
	1985	(217.5)	438.6	299.4	0.4	(105.7)
SISAL	1983	(2.9)	218.2	65.5	4.7	(0.5)
	1984	(16.3)	156.7	52.1	5.1	(1.7)
	1985	(69.3)	154.1	24.3	8.3	(10.8)
TOBACCO	1983	(43.1)	281.4	56.8	2.4	(15.4)
	1984	(36.9)	368.2	16.0	5.2	(12.3)
	1985	(169.1)	366.3	N.A.	N.A.	N.A.
TEA	1983	(10.4)	57.8	37.0	1.4	(9.4)
	1984	7.5	121.8	42.3	1.5	5.1
	1985	(0.5)	187.5	58.0	2.1	(0.3)

Source: Ministry of Agriculture and Livestock

Table A8.4

TANZANIA: FINANCIAL PERFORMANCE OF BOARD OF INTERNAL TRADE COMPANIES, 1984/85

(TSh. 'Millions)

	Total National Trading Companies	Total Regional Trading Companies	Total NTC's and RTC's
Sales	2,248.6	7,375.7	9616.3
Net Profit before Tax	166.9	412.9	578.5
Tax	83.4	206.4	289.8
Net Profit After Tax	83.4	206.4	286.7
Net Profit after Tax/Sales (%)	3.7	2.8	3.0
Return on Capital Employed (%)	13.4	21.8	18.5
Debt/Equity Ratio	6.48	1.44	6.93
Current Ratio	1.8	1.3	1.5

Source: Performance Report of Board of Internal Trade and its Specified Companies, 1984/85

8. As a whole, these companies have earned a reasonable return as shown in Table A8.4 for 1984/85. The aggregate returns on sales and capital employed of 3 percent and 18.5 percent respectively, masked considerable variation between the Regions but in general the financial indicators were satisfactory and results were close to the targets for the year. The total sales figure for the combined group that year was 21.9 percent higher than the previous year while the net profit after tax figure showed an improvement of 9.7 percent over the same period. The current ratio greater than unity indicates that both the NTC's and the RTC's had sufficient working capital to operate their businesses, although the margin would be small for a trading group if viewed from the lending perspective of a commercial bank. However, many companies were heavily overexposed in overdrafts: outstanding balances for the Group constituted nearly 37 percent of current liabilities.

9. The main factor influencing the profitability of these trading companies has been their virtual monopoly of the supply of most price controlled items and imports. (It was only during the course of 1984/85 that the Government embarked on its policy of liberalization of imports.) Increasing competition and the changes in the macro-economic framework are putting pressure on the BIT companies in many product areas. It remains to be seen whether the RTC's and NTC's can implement their cost reduction plans and adopt more aggressive marketing strategies to meet the challenge of private sector traders. The companies have the advantage of extensive distribution networks but have been criticized in the past for delivery and service to customers (which is not surprising given their RTC's monopoly position).

10. Survey of Thirteen Key Parastatals. As part of this study, an analysis of 13 important parastatals was undertaken for the years 1980-1985. The companies were divided into two main groups as follows:

a) Eight "Production Enterprises"

Aluminum Africa Ltd
Tanzania Cigarette Company Ltd
Tanzania Breweries Ltd
Saruji Trading Company Ltd
Southern Paper Mills Ltd
Ubongo Farm Implements Ltd
National Food and Agricultural Co.
National Transport Company

b) Five "Natural Monopolies"

Tanzania Railways Company
Air Tanzania
Tanzania Harbour Authority
Tanzania Electric Supply Co.
Tanzania Post and Telecommunications Corporation

11. "Eight Production Categories". The parastatals included in this sample are not a homogeneous group but rather reflect the diverse nature of the public enterprise sector in Tanzania. These firms were selected not only for their size in terms of sales revenue but also because they produce important products and services. The commercial parastatals include a number of manufacturing companies many of which hold monopoly positions in industries which in many countries are served predominately by competitive private sector enterprises. The service companies, including public utilities and some of the transport monopolies, are more commonly operated as public enterprises in most countries. Their performance is analyzed separately. Comprehensive time series data were not available on all of these companies due to late accounts and therefore emphasis in the summary data should be placed on ratio and percentage performance indicators to allow for these time series deficiencies.

12. The aggregate working capital and the current ratio for the sample seem adequate for these Tanzanian parastatal enterprises, which implicitly or explicitly had been able to rely on Government guarantees for loans or overdraft facilities during the period under review (see Table A8.5). Private firms in these sectors in other countries would have sought higher ratios (approaching 2:1) as a minimum cushion against bad debtors, inventory shrinkages, or short term liquidity crises. The recent credit squeeze in Tanzania has imposed liquidity pressures on companies at the same time that the devaluation of the currency has begun to have a serious impact on the cost of imported raw materials and components. The aggregate debt to equity ratios deteriorated rapidly over the five year period to a point in 1985 where the parastatals were depending on borrowed funds for the majority of their financing.

Table A8.5 FINANCIAL STATEMENTS AND ANALYSIS FOR EIGHT "PRODUCTION" PARASTATALS

	1980	1981	1982	1983	1984	1985
INCOME STATEMENT						
TOTAL SALES	2811230	3207661	3949500	5095110	6157714	7261122
Cost of Goods Sold	2415732	2733610	3315495	4161445	4972572	5764190
GROSS PROFIT	395504	474043	634001	933665	1185142	1496932
Depreciation	38954	72101	76920	96274	133761	126965
OPERATING PROFIT AFTER DEPR.	364550	401942	557165	837391	1051381	1369967
Interest & div. income	3933	5000	13644	16410	13493	11001
Rent income	309	1143	1204	1624	1638	890
Subventions	1939	7913	7491	9246	12351	3264
Other income	24961	23126	31663	41919	74466	58106
Interest expenses	25726	56416	39240	86483	89021	99629
Rent expenses	23567	1466	2014	2582	2658	1826
Other overheads + Expenses	192977	266666	354936	613289	663401	552985
PROFIT BEFORE TAX	153412	115376	214977	253324	397449	789676
BALANCE SHEET						
ASSETS						
TOTAL CURRENT ASSETS	1096288	1091952	1557493	2118689	3197516	3527572
Fixed assets	1662547	1682285	2288564	2866649	3368967	4118136
Capital work in process	6841	9582	8729	6816	11784	1294
Investment	1645661	2245460	2524851	2669436	3336586	3158976
TOTAL FIXED ASSETS	2715849	3937322	4742144	5536895	6717257	7278466
TOTAL ASSETS	3811337	5029274	6299637	7654984	9914767	10805978
LIABILITIES & EQUITY						
TOTAL CURRENT LIABILITIES	646960	778218	1072367	1587469	2213268	2125993
LONG TERM LIABILITIES	676874	916844	1293493	1669749	2380955	3702984
TOTAL LIABILITIES	1323834	1695062	2365860	3257218	4594223	5828977
Share Capital (Shareholders fund)						
Capital Reserves						
Revaluation Reserves					16345	16345
TOTAL EQUITY	2488503	3334212	3933767	4447766	5320544	4977001
Long term Liabilities + Equity	2488503	3414998	3887860	4136854	5048881	4689116
TOTAL LIABILITIES & EQUITY	3811337	5029274	6299627	7654984	9914767	10805978

Table A8.5 (continued)

	1980	1981	1982	1983	1984	1985
			KEY RATIOS			
Net Working Capital	449328	318784	485116	586628	984242	1481579
Current Ratio	1.69	1.40	1.45	1.38	1.44	1.66
Debt/Equity	0.53	0.51	0.60	0.72	0.86	1.17
Profit before Tax	153412	115876	214977	258324	397449	789676
Profit before tax/Total Sales (%)	5.46	3.60	5.44	5.07	6.45	10.88
Profit before Tax/Equity (%)	6.17	3.46	5.46	5.01	7.47	15.07
Profit bef Tax/Total Liab+Equity(%)	4.63	2.29	3.41	3.37	4.01	7.31

13. As a group the companies earned very low profits before tax and modest returns on capital employed. The significance of these poor returns can be put in perspective by bearing in mind that these enterprises would not even have satisfied the minimum Tanzanian Investment Bank or Treasury criteria for approving loan applications for projects--a financial rate of return at least as high as the commercial deposit rates. The returns are especially unimpressive in view of the fact that several in the sample hold monopolies in price inelastic commodities (the Tanzanian Cigarette Company or Tanzania Breweries for example.

14. Natural Monopolies. The positive net working capital figure and current ratios for these companies show a strong liquidity position similar to the eight production parastatals (see Table A8.). The group's debt to equity ratios were considerably higher, however, and their profits before tax and rate of return on capital employed, reveals that all of these state monopoly enterprises have fared badly. Aggregate rates of return were negative or near zero throughout the period with the exception of 1985 when a 6.9 percent return on investment was earned. This 1985 figure can be explained by the improved financial performance of a single company-- the Tanzania Posts and Telecommunications--as a result of a major rehabilitation of its trunk network. These summary figures are particularly disappointing when viewed against the 13.1 billion shillings of total assets invested in these five capital intensive industries by 1985. The main factor influencing the performance of these companies has been government's pricing policy. In addition the present credit squeeze and currency devaluation will have further serious consequences on companies such as TANESCO and TRC, which have to bear the foreign exchange risk on loans for equipment purchased with hard currency from overseas suppliers.

Table A8.6 FIVE "NATURAL MONOPOLIES

	1980	1981	1982	1983	1984	1985
INCOME STATEMENT						
TOTAL SALES	1665492	2366489	2555150	2890318	3164661	3020000
Cost of Goods Sold	851000	1020037	1038049	1094721	1221385	898700
GROSS PROFIT	814492	1286452	1517107	1803597	1943276	2122100
Depreciation	182933	258062	277411	330070	281314	248444
OPERATING PROFIT AFTER DEPR.	631559	1028390	1239696	1473527	1661962	1873656
Interest & div. income	15346	19763	23918	27465	29754	1800
Rent income	6812	7539	9000	10499	9410	9054
Subventions	8322	8322	8322	22679	27400	0
Other income	173150	289086	335620	316349	75732	39991
Interest expenses	71520	125915	189710	275565	285315	143077
Rent expenses	7342	4945	5616	7643	7846	5163
Other overheads + Expenses	698545	957575	1273211	1697292	1556523	871916
PROFIT BEFORE TAX	57790	264605	148619	-129981	34604	964345
BALANCE SHEET						
ASSETS						
TOTAL CURRENT ASSETS	2170436	2561054	3027531	3494691	3033550	2688300
Fixed assets	4403007	5550057	5762137	6402401	5767827	6532127
Capital work in process	1533056	1061853	1335334	1475900	2544705	3651684
Investment	204760	398842	416300	296787	311535	242814
TOTAL FIXED ASSETS	6141513	7011352	7513777	8169148	8624067	10426625
TOTAL ASSETS	8311949	9572406	10541308	11663839	11657617	13106925
LIABILITIES & EQUITY						
TOTAL CURRENT LIABILITIES	1334492	1652764	2152924	2536490	1918426	1858338
LONG TERM LIABILITIES	2929150	3236058	3405524	4708184	5379635	5388589
TOTAL LIABILITIES	4263642	4882822	5558448	7244674	7298061	7246927
Share Capital (Shareholders fund)						
Capital Reserves						
Revaluation Reserves						2223016
TOTAL EQUITY	4048307	4689584	4982859	4419765	4359556	5859998
Long term Liabilities + Equity	6977457	7919522	8388384	9127349	8959191	11248587
TOTAL LIABILITIES & EQUITY	8311949	9572406	10541307	11664439	11657617	13106925

Table A8.6 (continued)

	1980	1981	1982	1983	1984	1985
			KEY RATIOS			
Net Working Capital	815944	988298	874667	958281	1115124	821962
Current Ratio	1.63	1.55	1.41	1.38	1.58	1.44
Debt/Equity	1.85	1.84	1.12	1.64	1.67	1.24
Profit before Tax	57799	204685	149819	-129981	24684	984345
Profit before tax/Total Sales (%)	3.47	11.47	5.79	-4.48	1.09	29.94
Profit before Tax/Equity (%)	1.43	5.84	2.97	-2.94	0.79	15.43
Profit bef Tax/Total Liab+Equity(%)	0.76	2.76	1.40	-1.11	0.30	6.98

Table A8.7

SUMMARY FINANCIAL DATA ON FIVE "NATURAL MONOPOLIES"

	1980	1981	1982	1983	1984	1985
Net Working Capital ('000s SHS)	835944	980290	874087	958281	1115124	821962
Current Ratio	1.63	1.55	1.41	1.38	1.58	1.44
Debt/Equity Ratio	1.65	1.84	1.12	1.64	1.67	1.24
Profit before Tax ('000s SHS)	57790	284665	149819	(129981)	34664	984676
Profit before tax/Total Sales (%)	3.47	11.47	5.79	(4.48)	1.69	29.94
Profit before Tax/Capital Employed (%)	6.70	2.76	1.46	(1.11)	6.30	6.90

Note: Accounts for Air Tanzania (1985), Tanesco (1980), Tanzania Harbour Authority (1985) and Tanzania Railways Corp. (1984 & 1985) were not available.

APPENDIX B

EMPLOYMENT AND COMPENSATION IN TANZANIA'S PARASTATALS

1. Policies and practices with respect to parastatal employment and the degrees of freedom which managers have to hire, fire and set wages have a considerable bearing on labor productivity and hence parastatal performance. This appendix describes past and present policies and practices and discusses their implications for parastatal performance.

Employment

2. Parastatal workers have always been a privileged class in Tanzania. Despite declining productivity, their numbers have grown steadily; they have enjoyed a relatively high degree of protection from layoffs; and they have benefitted from wages that, in comparison with both skilled employees and rural workers, are somewhat more insulated from price inflation. The situation is changing today, however, as parastatals adjust to the new regime of increased competition and greater financial stringency.

Trends in Employment1/

3. Between 1980-1984, parastatal employment expanded in absolute terms by 24 percent (at an average annual rate of 5 percent), and by 1982, 24 percent of modern sector employment was accounted for by the parastatal sector. Substantial growth occurred in mining, construction and transport, while agriculture and industry show relatively moderate growth. Industry and transport were the largest employers accounting for 35 percent and 20 percent of parastatal employment respectively; agriculture and commerce accounted for 25 percent of all employees; and the remaining 20 percent were fairly evenly distributed across the other sectors (see Tables B1 and B2). Although no specific data are available, increases are said to have taken place primarily at lower and middle skill levels. Employment growth was not, however, matched by growth in output per worker: as shown in Chapter 1, sales and value added per employee show declining or stagnating trends.

1/ Employment data are scanty and beset with many problems: data prior to 1980 are incomplete and hence excluded from the report; they cover only a sample of enterprises (on average 170) and, moreover, the sample base shifts from year to year; data are not disaggregated by skill, occupation, or employee status (permanent employees vs. daily paid employees for example); and they vary significantly between different sources. As a result this report has relied on aggregate data provided by the Bureau of Statistics as well as on informal observations and interviews with government and parastatal officials.

Table B1 ANNUAL PERCENTAGE CHANGE IN PARASTATAL EMPLOYMENT: 1980-1984

	1980-81	1981-82	1982-83	1983-84	1980-84 Total Change	1980-84 Ave.Ann. Rate	1975-83 Total Change	1975-83 Ave.Ann. Rate
1. Agriculture	-1	6	9	4	18	4	83	23
2. Mining	86	14	1	3	111	21	42	18
3. Industry	-3	9	6	5	11	3	56	20
4. Electricity and Water	9	-76	4	38	-54	-18	-27	9
5. Construction	7	83	-6	8	169	26	149	31
6. Commerce	-6	29	-1	7	36	8	56	19
7. Transport	3	38	3	1	46	16	736	164
8. Finance	5	18	2	5	33	7	149	31
9. Services, incl. real estate	6	-45	15	0	-33	-16	-23	16
TOTAL EMPLOYMENT *	2	14	2	8	24	5	164	26
AVERAGE NO. OF EMPLOYEES PER PARASTATAL	-1	12	-3	8	22	5		

* Includes EAC enterprises

Source: Bureau of Statistics

Table B2 PARASTATAL EMPLOYMENT

	1980	1981	1982	1983	1984	Average % Share (1980-84)
1. Agriculture	17771	17542	18626	20232	21013	13
2. Mining	1950	3511	3986	4011	4124	2
3. Industry	51948	56420	54969	55096	57842	35
4. Electricity and Water	7158	7865	2307	2396	3308	3
5. Construction	4060	4260	7885	7770	8374	4
6. Commerce	15832	15765	20281	20057	21563	12
7. Transport	28868	29075	40828	41903	42136	26
8. Finance	11886	12476	14716	14992	15796	9
9. Services, incl. real estate	2779	2938	1623	1863	1863	2
TOTAL EMPLOYMENT (a)	142132	144387	165132	168320	175953	100
Number of Parastatals	164	168	171	180	187	
AVERAGE NO. OF EMPLOYEES PER PARASTATAL	867	859	966	935	1054	

(a) Includes EAC enterprises

Source: Bureau of Statistics

4. Several factors contributed to employment expansion in this time period. Although top government officials emphasize that parastatals have never been burdened with employment generation as their primary objective, other officials point to informal political and social pressures on the entire public sector (including parastatals) to provide employment at lower and middle levels. Dating back to the Arusha Declaration, deep and long-standing commitments were made to increase the role of the public sector in national development and improve the national distribution of income. These objectives were realized by diverting resources to the public sector to the neglect of other sectors in the economy such as the traditional agriculture sector, and by expanding public employment and allowing wages to decline. In the absence of alternative dynamic labor markets, government became the major employer of the increasing number of entrants into the labor force. Other factors which led to overstaffing are lack of of financial discipline (see Chapter 2 and Appendix A8), poor manpower planning, insufficient concern about costs of creating new posts because of lack of managerial accountability for parastatal performance, and cumbersome legal and regulatory procedures required to fire workers. As a result, until 1983 large numbers of workers managed to maintain their employment status despite poor parastatal performance, overall resource shortages and the heavy financial burden on the Government (Chapter 1). Such employment was maintained not only at high costs to the parastatals but also at the expense of the poor as scarce government resources were taken away from priority areas such as health, education and infrastructure.

5. To some extent this situation changed with the appointment of the Hamad Commission in 1983. The Commission's key recommendation, that parastatals contain costs and cut waste wherever possible, resulted in significant staff reductions. Although specific data were not made available (reportedly they exist in the Ministry of Labor and Manpower Development), the study team was informed that up to 20,000 parastatal employees were laid off as a result of this exercise. Specific data for a sample of 71 parastatals in industry and mining indicate a total reduction in staff of 6,431 (13 percent) between 1984 and 1986. Forty five of these firms show employment reductions, 10 show virtually no change and 16 show increases in employment over this period (see Table B3). Not included in these figures are layoffs in railways (2,000), transport (286), and steel (40).

6. Implementation of this retrenchment policy started with parastatals submitting information on staffing levels, expenditures, profitability, and other criteria to a special redundancy committee appointed by the President. Based on this information, the Committee specified redundancy levels for each parastatal. Implementation left up to the Boards of Directors. Many laid-off workers were absorbed in the private sector, often by spending more time at the small, secondary ventures or jobs they were engaged in before being laid off. Still others are reported to have

Table B8 CHANGES IN EMPLOYMENT FOR A SAMPLE OF 71 INDUSTRY AND MINING PARASTATALS 1984-1986

Parastatal	Employment 1984	Employment 1986	Change in Employment (84-86)	% Change in Empt. (84-86)
Musoma Textile	1638	846	-792	-48
Morogoro Shoe Co	640	333	-307	-48
Bldg Hardwr & Elec Spply Co	267	143	-124	-46
Natl Textile Corp	127	73	-54	-43
Kilimanjaro Textile	3075	2066	-1009	-33
Natl Steel Corp	94	64	-30	-32
Morogoro Tanneries	334	229	-105	-31
Tan Saruji Corp	137	94	-43	-31
Rufiji Basin Dev Author	118	84	-34	-29
Agric & Industl Supplies Co	347	251	-96	-28
Natl Development Corp	204	151	-53	-26
Tan Electric Supply Co.	6774	5174	-1600	-24
Natl Printing Co.	655	535	-120	-18
Tan Oxygen	154	126	-28	-18
Tan Bureau of Standards	167	137	-30	-18
Kilimanj. Machine Tools Co	213	175	-38	-18
Friendship Textile Mill	5211	4295	-916	-18
State Motor Corp	106	88	-18	-17
Tan Tanneries Co Ltd.	385	320	-65	-17
Aluminum Africa Ltd.	1402	1187	-215	-15
Tanga. Cement Co.	758	642	-116	-15
Blankets Mfg Ltd	778	679	-99	-13
Natl Shipping Agencies Co.	931	815	-116	-12
Darbrew Ltd.	175	154	-21	-12
Tan Breweries Ltd	3143	2798	-345	-11
Tan Shoe Co.	2820	2519	-301	-11
Keko Pharmaceutical Industrs	150	136	-14	-9
Mwanza Tanneries	170	155	-15	-9
Express Tanzania Ltd	153	140	-13	-8
Natl Engineering Co	400	368	-32	-8
State Mining Corp	368	339	-29	-8
Steel Rolling Mills Ltd.	371	343	-28	-8
Rubber Industrs	102	95	-7	-7
Tan Gemstone Industrs	75	70	-5	-7
Nyanza Salt Mines	608	572	-36	-6
Tan Petrol Dev Corp	214	202	-12	-6
Natl Pharmaceutical Co Ltd.	237	224	-13	-5
Sabuni Industries Ltd.	166	157	-9	-5
Small Industr Dev Corp	700	682	-18	-3
Household Supplies Co.	118	115	-3	-3

Parastatal	Employment 1984	Employment 1986	Change in Employment (84-86)	% Change in Empt. (84-86)
Tan Pharmaceutical Industrs	121	118	-3	-2
Williamson Diamonds	2322	2272	-50	-2
Mwanza Textile	2794	2751	-43	-2
Burns & Blane (T) Co.	85	84	-1	-1
Board of External Trade	99	98	-1	-1
SUB-TOTAL (45)	39906	32899	-7007	-18
Tan Cigarette Co	1573	1569	-4	-0
Agip Tan Ltd	243	243	0	0
Metal Box Tanzania Ltd.	371	371	0	0
Morogoro Canvas Mill	968	968	0	0
Morogoro Leather Goods Co	147	147	0	0
Natl Chemical Industries	37	37	0	0
Tan Cables Ltd	91	91	0	0
Tan Electrcl Good Mfg Co	156	156	0	0
Tan Leather Assod Indstrs	65	65	0	0
Tan Watch Assembling Co	18	18	0	0
SUB-TOTAL (10)	3669	3665	-4	-0
General Tyre	623	628	5	1
Tan Portland Cement Ltd	752	768	16	2
Ubungo Farm Implements	622	640	18	3
Zan za Kilimo-Mbaya	622	640	18	3
Polysacks Co	143	150	7	5
Tan Bag Corp.-Mill I	1045	1097	52	5
Mang'ula Mech. Machine Tool	509	536	27	5
Tanga. Dyeing & Weaving Mill	2006	2131	125	6
Saruji Trucking Co.	62	69	7	11
Motor Mart Tan Ltd	34	38	4	12
Tan Diamond Cutting Co	476	556	80	17
Tan Karatasi Assoctd Indstrs	34	41	7	21
Tan Auto Mfg Co Ltd	99	120	21	21
Statnery & Office Suppl Tan	72	89	17	24
Tanga. Meerchem	119	153	34	29
Blashara Consumer Co	174	316	142	82
SUB-TOTAL (16)	7366	7966	590	8
GRAND TOTAL (71)	50961	44530	-6431	-13

been reinstated in other parts of the public sector, for example, by being shifted from holding companies to their subsidiaries. In a few cases, workers were reinstated in their old jobs. For example, of the 300 workers whose services were terminated in TAZARA (Tanzania-Zambia Railway Authority) 116 were reinstated in 1984 by a ruling of the Permanent Labor Tribunal (PLT); the remaining employees are still fighting for reinstatement and a ruling by the PLT is still pending.

7. The political fallout from this exercise was reportedly minimal, surprisingly so given the large numbers involved. Officials attribute this to a process of careful "political preparation": the exercise received wide and prolonged publicity, and most important, continued support by the President.

8. But other factors are likely to have played a significant role as well. First, all workers receive severance pay when laid off: typically, one to three months base pay plus transportation back to the worker's hometown. Second, secondary jobs--"moonlighting"--is widespread, a consequence of the low levels of pay and perhaps also the permissiveness of managers (for whom this practice is, if anything, even more widespread). For many, therefore, being fired was not that serious an event; it simply meant spending more time on these activities.

9. Third, there appear to be significant opportunities elsewhere in the economy. The country is endowed with abundant, rich agricultural land and nearly everyone has ties to that sector. Moreover, there appears to be a thriving small-scale, informal sector and capital requirements to enter are small (a 1980 survey of 72 firms in this sector estimated that on average their capital was worth TSh. 6364 per firm).2/ Because of improved producer prices, devaluation and greater access to credit3/ these opportunities are undoubtedly greater today than they were three-four years ago.

10. Overstaffing is still estimated to be substantial--20 to 40 percent--in many firms. Improvements in capacity utilization, which should occur as the Economic Recovery Program (ERP) takes hold, will help, but will not by itself eliminate this problem.

2/ See Structure and Policy Problems of the Informal Manufacturing Sector in Tanzania, by M.S.D. Bagawacha, University of Dar es Salaam, ERB Paper 81.4, 1981

3/ As of 1985, NBC and CRDB set up a small-scale industries department to provide credit to small scale businesses. While the amounts are small and it is necessary to establish a registered business (which is not difficult but means filing reports, paying taxes, etc.), this represents an improvement over the situation in 1983-84.

Procedures for Laying off Workers

11. According to the Parastatal Regulations (1984), employees may be terminated as a disciplinary action, or because of employee inefficiency or redundancy (apart from attainment of compulsory retirement age and medical reasons). Summary dismissal is permitted for theft and absence from post without permission or good cause for more than three days. In all other cases, termination may be effected by giving three months' notice in writing or one months's gross salary in lieu thereof.

12. The disciplinary authorities for different staff levels include Boards of Directors (for middle-managers and above), Appointment Committees (for lower level workers), and the Chief Executive (for the lowest level employees). For disciplinary action, appointing authorities must follow the dismissal procedures laid down in the Security of Employment Act of 1964, which aims "to restrict the powers of employers, businesses and employees summarily and otherwise in relation to the discipline of employees". Under this Act the employer must inform the Workers' Committee (established in each enterprise under the Act) of intended action for breaches of the Disciplinary Code, including being late or absent from work, neglect of work, failure to complete tasks, destruction of property, "immoral acts", smoking in safety areas, and consuming alcohol and drugs on the job. In some cases, breaches of the Code may entail reprimands and fines; in other cases they may entail summary dismissal. The Workers' Committee has a few days to respond to the employer's proposed action of dismissal. If it does not respond the employer may take dismissal action; if it does respond (apparently the typical situation), an effort is made to resolve differences without the intervention of a third party. If no agreement is reached either party may refer the case to the Permanent Labor Tribunal, then to a Conciliation Board and finally to the Minister of Labor. Each of these various referral bodies has the power to confirm, reverse or vary the disciplinary penalty imposed by the employer.

13. Parastatal managers frequently complain that these procedures are difficult to apply, time-consuming and subject to political interference, severely restricting their ability to manage. Other employers indicate that the process is manageable if required procedures are carefully followed. The Government has recognized the need to simplify current procedures. The National Policy on Productivity, Incomes and Prices (1981), for example, clearly states that labor laws will be reviewed to speed up action against irresponsible workers at all levels. However, such action has yet to be taken.

14. Beyond this, much depends on how the procedures are implemented. In past years, the emphasis was on protection of workers and it took a strong, determined manager to exercise his authority. More recently, political leaders have recognized the need for improved efficiency and productivity to meet parastatals' mounting financial problems. Continued political support--indeed, pressure on managers to exercise the authority they have, and on administrators to support them--will be needed to overcome resistance and change ingrained habits of thought.

Recruitment Practices

15. For all public corporations and for parastatals established by special acts of Parliament, the chairman of the board and the chief executive are appointed by the President. Typically, a list of candidates is drawn up by the board of directors and submitted to the parent ministry, which in turn presents a short list to the President. For parastatals that are subsidiaries of holding companies, the chairman of the board (typically in this case called the management committee) and the general manager are appointed by the board of the holding company with the approval of the parent ministry. Middle level managers are selected and approved by special appointment committees set up within each parastatal; boards of directors or management committees must give final approval for managers above this level. Lower level employees are appointed by chief executives.

16. As in every country, political pressure is frequently exerted to influence the outcome of these appointment procedures. Because of this, plus the fact that the President makes most of the key decisions, many managers feel less beholden to their board or parent ministry than they do to more senior political authorities and it becomes difficult to reward and punish them for mismanagement and parastatal performance. One way to improve this situation is to require that all chief executive posts be advertised and all acceptable candidates be interviewed by the board (and possibly the parent ministry as well). While this procedure is sometimes followed, it is not apparently a legal requirement except for posts below that of chief executive and posts not filled by secondment from the civil service.

17. Given shortages of trained manpower, managers are heavily dependent on new graduates. If these graduates come from Tanzanian training institutions or received state scholarship funds, they are required to accept employment in the public sector for a specified number of years, if an appropriate position is offered to them. A committee, the High Level Manpower Allocation and Training Committee of the Ministry of Labour and Manpower Development, is responsible for matching these graduates against public sector needs. This committee periodically sends out "indent forms" to prospective employers in the civil service and parastatals requesting information on current manpower strength, future manpower needs, number of vacancies, number of expatriates, and so on. Once these forms are returned, the Committee matches them with expected student output from the University and proceeds to make allocation decisions. Final allocation decisions are apparently based on two important factors. The first and most important one according to Ministry officials is employer needs. Consideration is given to the number of vacancies in key posts, size and importance of the organization, number of expatriates in skilled positions, the employers' history of needs, and retention capacity. Second, decisions take into account national "priority areas" identified by the Committee. Priority is given first to training institutions, then to the productive sector (and here priority is given to agriculture and infrastructure over industry), and finally to the service sector.

18. Government officials justify this system in light of the severe nationwide shortages of key personnel (accountants, managers, engineers, and so on). They argue that if left to market forces the eventual result would be a highly skewed distribution of available skilled manpower. Scarce skilled staff in high demand would gravitate toward organizations that are able to offer superior remuneration (such as the private sector and some big parastatals), making it difficult for other equally important but less profitable institutions to recruit necessary qualified staff. Thus, government officials stress the need for allocational criteria that channel and counteract market forces.

19. This system appears to result in overly centralized decisions based on inadequate information. Both managers and graduates complain that they are offered too few choices--sometimes none--and often quite inappropriate ones. Part of the problem is the inadequacy of the manpower planning and information systems both at the central and the parastatal levels. Required data are often unavailable; staff operating the system are frequently inadequately trained; there is little coordination between agencies; and as the Annual Manpower Report to the President (1983) points out, organizational structures and staffing levels in many parastatals are not systematically developed to match their planned targets.

20. Given sufficient time and effort, these deficiencies can be at least partially remedied; but in the end, the system will remain overly centralized. A better approach would be for the committee to drop its efforts at allocation and serve only as a clearing house and monitoring agency, to ensure that graduates fulfill their obligation for public service. Consideration should also be given to allowing these graduates to join a private firm provided they or the private firm agree to pay the Government a sum for the training the graduates received at Government expense.

21. Other problems have arisen because managers are seconded from the civil service. Some secondments occur as a result of Presidential appointments; others result from negotiations between the concerned parastatal and the parent ministry, in which case SCOPO approval is needed. Secondment lasts for a period of one year, although extensions may be granted by the President or by SCOPO. Posts filled in this way do not have to be advertised. All too often they are filled with individuals lacking the proper background and experience to operate successfully in a commercial, competitive environment. Moreover, unless the secondment period is strictly limited, secondment provides managers with a risk free environment or a sense of tenure which may be appropriate in a bureaucracy but is quite contrary to the nature of a commercial enterprise. Secondment also leads to instability in key positions as officials are moved around from one organization to another. Equally important, the practice robs the civil service of key personnel who are trained, qualified and experienced to do particular types of jobs. For all these reasons, the practice should be used sparingly and the time period should be clearly and strictly limited.

22. Finally, the recruitment of expatriate managers is made very difficult, though still easier than in the private sector. For individuals, an internal committee must recommend to the parent ministry which then must seek approval of the Ministry of Labour. To recruit a management team, the request must also be reviewed by an interministerial committee that advises the Cabinet which makes the final decision. It is often difficult to argue persuasively that local personnel cannot do the job with equal competence.

23. Such caution is understandable in light of previous experience with expatriates: costs are very high; it is difficult to ensure good quality; and often counterparts are left untrained. At the same time, however, the Government may be erring on the side of excessive caution. This is particularly damaging given the drastic shortages of skilled and qualified personnel facing the nation and the cost of mismanaging such an important sector of the economy. Thought should be given to simplifying the approval process; placing more emphasis on training (for example, requiring that expatriates be both able and willing to train, that it always be part of their terms of reference, that qualified counterparts be assigned and then monitoring the implementation of these agreements); and possibly using services that guarantee the capability of managers and replace them if they fail to perform (IFC has set up such a service, for example).

24. This discussion of recruitment proceedures can be summarized by saying that, while on paper, they seem reasonable--albeit somewhat overly complex and centralized--in practice they are subject to all kinds of special interventions that result in a far from optimal allocation of available manpower. While a few suggestions can be made to improve the situation, no fundamental change will occur until all parties agree in practice as well as in principle that excellence must be the primary criterion. Such a fundamental change in attitude will come about more quickly if excellence is required for survival of the institution; and that will only occur if the parastatals are subjected to more competition than is the case today.

Compensation Policy

25. For commercial parastatals to respond to market conditions and to ensure profitability, they require a flexible compensation policy that allows them to attract, retain and motivate qualified staff and to compete with the private sector for skilled and experienced manpower. In Tanzania, parastatal compensation policy has had difficulty achieving these goals. Parastatals find it difficult to fill key positions with qualified persons and to keep the best from leaving for the private sector; " moonlighting" is common; productivity and morale are low; theft and corruption are thought to be increasingly common. The most important reasons for this situation are low pay scales, the result of overall poor performance and overstaffing; Government regulations linking pay scales to the civil service which reduces flexibility and makes it difficult to compete with

the private sector; small increments between steps and an ineffective system of rewards and punishments based on performance. The Government has begun to recognize these problems, and, as a first step, appointed the Nsekela Commission in 1985 (the first such commission since the Adu Commission in 1961) to study the subject of public sector salaries. The Commission's report is currently under review.

Compensation Structure and Administration

26. Salary structures and increases are determined by the Government and enforced by the Standing Committee on Parastatal Organizations (SCOPO), a Government department located in the President's Office. Established in 1968, one of SCOPO's key functions is "to review and approve salaries and fringe benefits of employees in parastatal organizations in order to ensure that they are consistent with the salaries and benefits payable to employees in Civil Service requiring the same skills and qualifications." Prior to 1967, parastatals inherited and followed the compensation systems of the corporations they replaced.4/ As a result, top managers enjoyed an average 14 percent pay premium over their counterparts in the civil service. After the nationalizations following the Arusha Declaration, however, explicit efforts were made to narrow this differential and provide uniform compensation for all public sector employees. This was justified on the grounds that rewards for staff (possessing similar qualifications and skills) in "equivalent" and "interchangeable" jobs in different parts of the public sector should be similar. In addition, top managers in the civil service claimed that it was difficult to effectively supervise parastatals whose chief executives earned higher salaries than their own. As a result, parastatal salary policy was standardized with that of the civil service and SCOPO was established to implement this policy.

27. For compensation purposes, parastatals are graded by SCOPO into three categories on the basis of size (amount of capital and assets, number of employees, turnover, profit and loss accounts), "workload and complexity of the operations of the company" (working conditions, level of technology, geographical location), and "national importance." So far, 123 parastatals have been graded on the basis of data collected by SCOPO. Chief Executives of the most important parastatals (category A) receive (as of June, 1987) TSh. 6,075 per month, which is 3 percent and 6 percent higher than chief executives in category B and C parastatals. They may also receive additional fringe benefits, for example, entertainment allowances which in some cases is equal or greater than the salary itself. Based on the chief executive's salary, SCOPO then sets the salaries of the remaining employees in the firm.

28. The present parastatal salary structure corresponds closely to that of the civil service. It consists of 13 salary scales. Minimum wage earners fall under MSU 1; middle level managers fall in MSU levels 5 to 9;

4/ For more details, see J.V. Mwapachu, Management of Public Enterprises in Developing Countries, 1983, Oxford and IBH Publishing Co., New Delhi.

and chief executives fall in MSU 10 to 14, depending on the categorization of the firm (Table B4). All salary scales are separate and incremental, except for the top managerial scales (MSU 10 - 14) which are fixed. Annual increments are also fixed by SCOPO. They are small (less than 1 percent in most cases) and, although supposed to be based on productivity, are regarded as an automatic salary adjustment unrelated to job performance.5/

29. Each parastatal Board of Directors establishes "schemes of service" for different categories of workers which define movement within and between salary scales. Although parastatals are given freedom to set

Table B4 SALARY STRUCTURE IN THE PARASTATAL SECTOR, 1986/87

SALARY SCALE*	SALARY RANGE (Shs. Per Annum)	ANNUAL INCREMENTS
MSU 2	9,720 - 11,220	300
MSU 3	11,640 - 15,240	600
MSU 4	15,900 - 23,100	900
MSU 5	24,120 - 31,680	1,080
MSU 6	33,000 - 40,200	1,440
MSU 7	41,400 - 49,200	1,560
MSU 8	50,400 - 58,800	1,600
MSU 9	60,660 - 64,260	1,800
MSU 10	65,280 - FIXED	-
MSU 11	66,900 - FIXED	-
MSU 12 (Group C)	68,340 - FIXED	-
MSU 13 (Group B)	70,620 - FIXED	-
MSU 14 (Group A)	72,900 - FIXED	-

* MSU 2 - 4 - Subordinate Service
MSU 5 - 9 - Middle Level Managers
MSU 10 - 11 - Chief Executives of Some Parastatals and line managers of Parastatals
Category B
MSU 12 - 14 - Chief Executives of Categories A, B, and C Parastatals, and line managers, depending on firm categories on.

Source: SCOPO, Directive No. 40.

Note: As of July, 1987, these scales have been increased on average by 20 percent.

5/ As of July, 1987 civil service and non-commercial parastatals (those receiving subventions from the budget) received an across-the-board 20 percent increase in salaries and commercial parastatals were told they could increase their wage bill by 20 percent, thereby allowing them somewhat more flexibility than previously.

their own promotion policy, schemes of service must conform to the salary structures established by SCOPO. Promotions between grades takes approximately 3-5 years, becoming increasingly difficult at higher levels. Theoretically, individuals are evaluated on the amount and quality of work, although factors such as cooperation with staff, lifestyle, and extracurricular activities are reported to be given equal weight. In practice, performance evaluation systems are rudimentary and promotions tend to be based mostly on seniority.

30. Although not clearly documented, fringe benefits comprise a significant portion of the overall compensation package. Some estimates put this figure at over 50 percent. Fringe benefits and allowances have grown in importance as parastatals attempt to find ways to get around salary unification with the civil service and the highly progressive income tax. Benefits and allowances are stipulated in the Parastatal Regulations of 1984 and include: medical and dental (parastatals may opt to follow the civil service plan or set up their own arrangements with the approval of SCOPO), acting allowance, disturbance allowance, subsistence allowance, overtime, responsibility/duty allowance, mileage allowance, outfit allowance, housing, and free transport for certain occasions. Parastatals may also provide other benefits with the approval of SCOPO, which typically include subsidized meals, transportation for workers, out-of-station allowance, and a host of allowances for special groups (teachers, doctors, aircraft pilots, and mortuary attendants, for example). Benefits at the chief executive level include housing, car, domestic servant, first class air travel, and entertainment allowance. These benefits are not taxed.

31. Many of the above benefits are provided in the form of services rather than flat monetary allowances. For instance, many parastatals buy and maintain their own fleet of buses to provide free transport for their workers, run free clinics to provide medical benefits, and offer subsidized meals. Where monetary allowances are provided, they are often so inadequate that employees, when given the choice, opt for the service rather than the allowance.

32. At the managerial levels, the most important benefits are housing and transport. MSU levels 8 and above are <u>entitled</u> to housing; all other levels are <u>eligible</u>. Because of the severe housing shortage, however, not all those who are eligible or even entitled get public sector housing. Those who manage to get this benefit pay a nominal rent (12.5 percent of basic salary for higher level managers; 10 percent for middle managers; and 7.5 percent for lower level employees).

33. Public sector housing is provided by the National Housing Corporation, the Registrar of Buildings, the central Government, or the parastatal itself. From all accounts, it appears that the parastatal sector is much better off than the civil service in the tight housing market. Government requires all organizations (public and private) to set up Workers Housing Funds consisting of 20 percent of their profits net of tax and depreciation. Although many parastatals are unable to comply with this requirement, quite a few can build houses for their staff. Furthermore, unlike

the civil service, parastatals are allowed to rent private houses for their employees. Reportedly, better housing prospects have prompted some civil service employees to move to the parastatal sector (although this movement is apparently becoming less frequent with increasing instability in the parastatal sector).

34. The current shortage of housing has resulted in part from past Government policy. In 1971, Government nationalized all housing units that were valued at TSh. 100,000 or more (this involved about 2,000 buildings comprising 10,000 units) and gave itself a monopoly on building houses. However, Government was unable to keep up with high costs and interest rates and housing construction slackened off to well below rising demand. The ensuing shortage led Government to repeal its monopoly in 198_ and today individuals are encouraged to build their own houses with financial assistance from the Housing Bank.

35. The other important benefit at senior levels is the use of a company car. In most cases, chief executives are entitled to the full-time use of a vehicle that is maintained by the parastatal. Cars are apparently an expensive fringe benefit for parastatals. As a result, Government made a recent decision that all public officials (including parastatal managers) acquire and use their own cars while on official duty; a flat allowance for fuel and maintenance is to be provided by the parastatal. Although not yet fully implemented, the initial results reportedly show that fuel consumption has dropped from a maximum of 70 litres a week to approximately 30. There still is a small pool of company cars, however, and they are, reportedly, being used more heavily than in the past.

Take-Home Pay

36. Infrequent and small salary revisions, small annual increments, high inflation (consumer price indices in urban areas showed an average price increase of 27 percent in 1983) and a progressive income tax structure have all combined to result in drastic deteriorations in real take home pay at all skill levels. In addition, policy choices to expand employment (rather than increase wages) and declining productivity have also contributed to declining real wages, as less money is spread thinly among large numbers of unproductive workers. Thus, in 1985 top level employees earned 66 percent less in real terms than they earned in 1980 and minimum wage earnings deteriorated by 54 percent (Table B5). These figures exclude fringe benefits which apply more to upper salary groups; unfortunately, there is no data to indicate whether they have decreased by more or less than earnings.

37. Inadequate take-home pay has had an adverse effect on employee and enterprise performance. " Moonlighting" is today considered essential to maintain standards of living. Parastatal employees (at all levels) would be hard pressed to live on their salaries alone. An average chief executive on the MSU 12 scale, for example, earns 5,695 TSh. a month, of which 25 percent is taxed, 12.5 percent goes toward housing, 5 percent

toward the Provident Fund, which leaves him with a net monthly take home pay sufficient for only one to two weeks. As a result, an increasing proportion of official working hours is spent on secondary activities (such as farming, poultry, private sector consulting, etc.) that are equally if not more lucrative than official jobs, and commitment to primary work is eroded. Although the Leadership Code prohibits those in MSU 4 and above from having second jobs, a blind eye is turned toward such activities as they are increasingly recognized as essential.

Table B5

ANNUAL PERCENTAGE CHANGE IN PUBLIC SECTOR EARNINGS: 1980-1985

Year		Minimum Wage	Average Salary	Middle Grade Salary	Top Salary
1980	Nominal	26.3	10.0	3.1	0
	Real	-7.7	-15.5	-14.1	-17.5
1981	Nominal	25.0	7.6	3.6	10.4
	Real	-4.4	-14.4	-21.4	-12.8
1982	Nominal	0	7.7	3.9	0
	Real	-17.9	-16.5	-17.2	-21.4
1983	Nominal	0	6.1	3.7	0
	Real	-19.1	-16.5	-16.8	-19.4
1984	Nominal	35.0	8.2	17.9	10.0
	Real	14.9	-20.5	-7.4	-7.8
1985	Nominal	0	NA	NA	0
	Real	-31.7	-	-	-18.8
Total Change 1980-85					
	Nominal	113.1	-	-	21.4
	Real	-54.0	-	-	-65.9
Average Annual Change					
	Nominal	18.9	9.3	7.1	3.6
	Real	-9.0	-12.0	-11.4	-11.0

Source: Productivity and Operation Report for the Year Ended 30th June, 1986, National Productivity Council.

Note: Real wages are nominal wages deflated by the cost of living index, 1977=100.

38. Inadequate take-home pay has also led to increased theft, corruption, and misuse of official public services over the past several years. outright theft and the ability to extract rent from certain positions have no doubt improved the living standards of employees at all levels but this has taken place at a significant cost to parastatals, both financial as well as in terms of employee morale and motivation. dependence on such forms of income has led employees to focus a significant portion of their productive time on finding unofficial ways to circumvent their low official salaries.

39. A top priority, therefore, is to increase take-home pay to a level that permits employees to maintain a reasonable standard of living without moonlighting or corrupt practices. This should initially be done selectively (at higher levels) to fill vacancies and retain scarce skills. The need for across the board increases to assure all staff earn a living wage should be studied. Given current financial constraints and poor parastatal performance, across the board increases will be possible only in conjunction with other reforms that improve parastatal productivity. A first step, of course, is to eliminate redundant workers; thereafter, special studies may be necessary to determine how to proceed. At the same time, it will be necessary to review and if necessary modify the tax structure to ensure that a significant part of any salary increase is passed through to increase take-home pay.6/

Incentive Effects of the Compensation System

40. The incentive effects of the salary structure, by itself, must be negligible. Annual increments and promotions have become, in practice, automatic rather than tied to performance. Moreover, the salary structure is characterized by severe wage compression which is largely a result of explicit Government policy that aims to narrow existing income differentials in the country. This objective has been achieved by granting consistently higher wage increases to lower level employees (Table B5). For instance, the 1984 wage revision resulted in upward adjustments of the MSU 2 wages by 62 percent and top salaries (MSU 14) by 10 percent; similarly, the "cushion fund," established in July 1986 to counteract wage erosion, ranged from 30 percent for the lowest paid employees to 7.5 percent for the highest paid staff. The highly progressive income tax structure and limited number of salary scales have also contributed to wage compression.

41. Today, the salary of the best paid chief executive in the parastatal sector is only 7.5 times higher than the starting salary of the lowest paid worker, and is a mere 1.2 times higher than the middle manager in the firm. Although similar equity considerations prevail in many

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6/ The Government has already taken some steps in tax reform. In 1984, income tax rates were reduced from a range of 25 percent-95 percent to 20 percent-75 percent. In 1987, the non-taxable base was increased and tax rates further reduced.

African countries, wage compression seems more severe in Tanzanian parastatals than elsewhere. In Zambia, for example, where Government has explicitly followed a policy of "narrowing-the-gap," managing directors on average earn salaries that are twelve times higher than the lowest paid employees.7/ On the other hand, fringe benefits are very unequally distributed among employees at different levels (also true in Zambia); whether the combined package provides sufficient incentives for personnel in key positions to acquire additional skills and seek additional responsibilities is an open question that remains to be studied.

Comparison with the Private Sector and Differentiation Among Parastatals

42. Current policy does not recognize that labor and job requirements (in terms of qualifications, skills, experience, functions and responsibilities) in commercial parastatals are more comparable with the private sector than the civil service, and that parastatals must compete with the private sector for a limited supply of skilled personnel. Since parastatal employment offers certain benefits over private employment (more job security, more opportunity to earn money in secondary ways such as moonlighting) opportunities for responsibility and advancement, more job security), wages need not be at par to attract skilled staff. But in Tanzania, the differential is so substantial as to make it difficult for parastatals to compete.

43. Although specific data are unavailable, anecdotal evidence indicates that managers and other technical personnel (accountants, engineers, and architects, for example) can command up to three times more pay and much higher tax-free benefits in the private sector. As a consequence, persons who decide to work for parastatals despite the lower income, are likely to be less prone to take risks, more interested in the opportunities for secondary income or simply not of a calibre to command the higher salaries in the private sector.

44. Tanzania also differs from other countries in compensating parastatal employees roughly on a par with civil servants and maintaining very small differences in top salaries between parastatals of different size and importance. On average, top managerial salaries in parastatals are only marginally higher (1.2 percent) than the salaries of most Principal Secretaries in the civil service. Indeed, MSU levels 18 and 19 in the civil service earn 12 percent and 19 percent more than the highest salary in the parastatal sector). In many other countries, even where salary scales are standardized, parastatals maintain a substantial edge over the civil service by the use of extended scales for higher level staff. In Zambia, for example, these premiums are on the the order of 15 percent. Such salary differentials recognize the different labor markets, motivation and risks faced by senior parastatal staff compared to civil servants. Highly

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7/ For more details, see Zambia, Wage Policy and the Structure of Wages and Employment, World Bank Report No. 5727, May 7, 1986).

standardized salary systems may be appropriate in situations where there is a fair degree of homogeneity in work and output as in Government departments and non-profit parastatals. But they are not suited to commercial parastatals that are vastly different in activity, size, market conditions and performance. Clearly, it is impossible to group such a wide array of parastatals into just three broad categories and adequately reward staff for very different levels of responsibility.8/

Fringe Benefits and Allowances

45. As noted, a large fraction--perhaps as much as 50 percent--of the compensation package is provided in the form of fringe benefits and frequently they are given in the form of services rather than monetary allowances. These practices not only impose large costs on the parastatals; they also impose a substantial managerial burden. Buses have to be bought, maintained and driven, and clinics have to be staffed and equipped. Moreover, the evaluation of parastatal performance is made even more complex as all of these expenses are embedded in overall costs. Finally, these extensive fringe benefits make compensation less transparent and lend themselves easily to abuse. This subject needs careful review to determine whether such benefits can be phased out and the savings used to increase base salaries and whether those that remain can be provided in the form of allowances rather than services.

The Bonus Scheme

46. A successful compensation policy must be able to motivate staff by adequately rewarding good performers (and penalizing poor performers). The National Policy on Productivity, Incomes and Prices (Government Paper No. 1 of 1981) emphasizes this concept of linking pay to performance. It clearly states that parastatals must relate pay, through bonus payments, to the attainment of production targets specified in the voluntary agreements drawn up between management and workers. A bonus application may be made in the agreement, and bonuses are awarded only if the agreed target is surpassed and if it can be shown that profits are made through cost reductions rather than price increases. The policy emphasizes that bonuses should be awarded to individuals or groups of workers based on performance although in practice they tend to be distributed evenly across the board. The Permanent Labor Tribunal (PLT) is then supposed to register these production targets. After an agreement regarding bonus payments is reached,

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8/ In Kenya, parastatals are grouped into six different categories with significantly different upper limits (approximately 84 percent difference between the top and lowest categories). Based on their ability to pay, parastatals are then allowed to determine their own salary scales and fringe benefits subject to the approval of the State Corporations Advisory Committee.

the board of directors may proceed to implement it without prior PLT clearance, although PLT has the authority to summon both management and workers to furnish further information.

47. This policy has had very limited effect. Few parastatals bother to send in productivity targets and agreements or applications for bonus. During 1985/86, for example, the PLT received only 51 voluntary agreements (of which none were registered); 122 productivity targets (of which 44, or 36 percent, were registered); and 6 bonus applications, of which only one received an award (Table B6). Considering that there are 12,548 firms (the

Table B6 SUMMARY OF PRODUCTIVITY PROGRAMMES PROCESSED BY THE PLT FROM 1983/84 TO 1985/86:

Subject	1983/84	1984/85	1985/86
Number of Agreements Received	27	101	51
Number of Agreements Registered	7	23	-
Number of Awards in Voluntary Agreements	7	20	2
Bonus Applications Received	3	5	6
Bonus Applications Awarded	NIL	2	1
Number of Productivity Targets Received	32	307	122
Number of Productivity Targets Registered	3	275	44

Source: Productivity and Operation Report for the Year Ended 30 June 1986, National Productivity Council.

policy applies to both public and private firms) on the register of the Commissioner, these figures amount to less than 1 percent of all firms. Moreover, the extent to which the above numbers reflect parastatal response (as opposed to private sector response) is unclear. These numbers are, moreover, substantially lower than those for the previous year, indicating a declining trend in compliance with the "productivity program" established under Government Paper No. 1.

48. Part of the problem stems from the lack of data and necessary expertise on the part of the parastatals. The National Institute of Productivity has not been able to effectively assist employers in setting production targets. Equally important is excessive centralization of this program. In practice, the PLT has assumed full authority and boards of directors are given very little say in awarding bonuses; criteria for registration of productivity targets and approval of bonuses is strict; and the registration process is long. In addition, managers complain that they are not rewarded for reducing loses, which in the difficult operating environment is a success itself. They also emphasize that PLT does not take into consideration the difficult, unpredictable, and highly regulated environment in which they operate. Such conditions make it difficult to plan and achieve specified production targets.

APPENDIX C

ORGANIZATION, MANAGEMENT AND SUPERVISION OF TANZANIAN PARASTATALS

Evolution of the Institutional Framework

1. At independence in 1961, Tanzania inherited a substantial parastatal sector. In the period following World War II, the colonial Government had created a number of agricultural marketing boards, rural development agencies, and industrial promotion entities. In 1959, the colonial Government created in the Ministry of Finance an office of Treasury Registrar to hold and manage these public investments. Its role as monitor and supervisor of parastatals was limited, in line with the then prevailing British conception of maximizing the autonomy of parastatal managers. But the interesting point is that shortly after independence, Tanzania possessed more than sixty parastatal bodies. Thus, the country had before its adoption of socialist principles in 1967 a larger parastatal sector than most sub-Saharan African countries had after the boom expansion period of 1973-1981 for African parastatal formation.

2. In January of 1965, the Government created the National Development Corporation (NDC) out of the merger of the Tanganyika Agricultural Corporation and the Tanganyika Development Corporation. Its goal was to promote economic and especially industrial development. Following the Arusha Declaration of 1967, and the ensuing nationalizations, Government expanded the National Development Corporation into a super-holding company to oversee the many new commercial and industrial entities in the state's portfolio. The enormity of the supervisory task soon became apparent. In 1969 the National Assembly passed the Public Corporations Act, which provided a legal basis for the sectoral holding concept, and spelled out the powers and responsibilities of the various actors involved --the President, the Ministry of Finance, Boards of Directors, managers, the Government auditors, the National Assembly, etc. This scheme was then widely applied; between 1969 and 1974, twelve sectoral holdings were formed.1/ Overall, the bulk of the parastatal sector's growth took place between 1968 and 1980, with--on average--thirty new parastatals being formed in each year of the period.

3. Also following the Arusha Declaration, Government created the Standing Committee on Parastatal Organisations, or SCOPO. Reporting to the Office of the President, the original purpose of SCOPO was to assist in staffing the many parastatal bodies created by the nationalizations. Over

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1/ There are now seventeen holdings to which the 1969 Public Corporations Act as amended in 1983 applies. The act also applies to ten other parastatals. The rest of the sector is legally regulated either by the Companies Ordinance, by specific acts of Parliament, or in a very few cases by extraordinary legislation.

time its responsibilities have grown to include playing a lead advisory role on the organization of parastatals, the definition of parastatal salary scales, the production of schemes of service for parastatal staff, and manpower development planning and training schemes. SCOPO has produced about fifty sets of guidelines and directives on organizational, personnel and training issues. A parastatal is expected to abide by the directives but may write requesting approval for changes relevant to that organization. SCOPO now has a staff of 45 persons, organized in three divisions--operations, manpower management, and research and development. In recent months it has begun compiling a data base on parastatals, combining financial and management information.

4. Prior to the Arusha Declaration, audits of all Tanzanian parastatals were carried out by private firms. But with the turn to socialism and the exponential growth of the sector, the Government created, in early 1968, the Tanzania Auditing Corporation (TAC), itself a parastatal, which now audits all parastatal accounts. It also produces an annual report that examines parastatal accounts, assesses their quality, and recommends steps to be taken to improve the production, timely submission and quality of accounts. The reports, 18 of which have so far been produced, frequently go beyond the strict boundaries of accounts auditing to make recommendations on management practices in general. As of 1987 the TAC had a staff of 230 professional auditors, of which 150 were holders of a university degree (usually the B. Comm.). Thirty two of the 150 were fully qualified CPA(CA)s.

5. Parastatals are required by law to submit accounts within three months of the close of books for a financial period; the TAC is required to provide the parastatal board with its audit report within another three months; and the parastatal must submit the audited accounts to the Parastatal Organization Committee (POC) of Parliament within a total of 8 months. The POC was established in 1978 with power to review TAC's findings and recommendations, call managers before it to answer questions and, if warranted because of financial loss or deficiency or mismanagement, recommend to Treasury that they be fined up to 15 percent of one month's salary.

6. Thus, by the early 1970s, the Government had formed a number of supervisory and advisory agencies to aid and oversee its rapidly expanding parastatal sector. Nonetheless, performance was disappointing. Instead of, on net, generating revenues for the Government, parastatals became an increasing burden on the budget; and it became increasingly evident that large investments were being made by parastatals without adequate preparation or supervision. Therefore, the Government in 1974-75 added substantially to the oversight responsibilities and powers of the Ministry of Finance. The post of Commissioner for Public Investments was created, and an Inspection, Supervision and Control section added to it in 1975. The functions of the Treasury Registrar--which had never actively pursued its assigned supervision tasks--were transferred from the Deputy Principal Secretary of the Ministry of Finance to the new office, the holder of which was henceforth known as the Commissioner for Public Investments/Treasury Registrar.

7. On paper, the Commissioner and his office possessed vast powers to advise Government on parastatal policy, monitor and evaluate enterprise performance, and intervene where and when necessary to diagnose problems and propose - and apply - appropriate remedial actions. The Treasury Registrar's Ordinance (Cap. 418), the Public Corporations Act of 1969, as amended in 1983, and the Companies Regulation of Dividends and Miscellaneous Provisions Act of 1972, charged the department with major responsibilities:

- to advise Government on the establishment of public corporations;
- to review parastatal financial performance and recommend measures for mergers, closures or improvements in performance;
- to review and approve corporate plans;
- to set financial targets and other performance criteria;
- to evaluate the performance and effectiveness of Boards of Directors and Management Committees;
- to consider and recommend appropriate capital structures of parastatals and to advise on appropriate or desirable additional capital injections;
- to set and review appropriate financial regulations;
- to evaluate short and long term credit needs for parastatals;
- to advise Government on investments and loans for parastatals;
- to prepare statements of investments accounts for Government; and
- generally, to ensure that parastatals "minimize un-productive expenditures and losses of revenue with a view to making them a significant source of revenue for the Government by way of dividends and or efficient instruments for social and economic development of the country." (Treasury Registrar, 1985, 2-4)

The department has an establishment of 29 persons, consisting, in theory, of a Commissioner, three Assistant Commissioners and 26 professional level staff. The Commissioner's post and one of the Assistant Commissioners' posts has been vacant for several years, and 9 staff positions are currently vacant.

8. The Commissioner for Public Investments was officially given the responsibility to advise Government on financial aspects of parastatal investments; economic aspects are the responsibility of the Commissioner

for Sectoral Planning in the Ministry of Planning (which recently has been amalgamated into a Ministry of Finance and Planning). On paper, the Sectoral Planning unit has an establishment of forty-four persons, seven of whom are supposed to be senior staff.

9. In 1980, the Prime Minister's Office issued a directive stating that each parent ministry, that is, each of the line or technical ministries having more than three parastatals under its direct supervision, should create a special parastatal monitoring and supervision unit. The size, powers and precise mode of functioning of these units was left to the determination of the ministries.

A Summary of Existing Institutions

10. These were the major dates and events in the evolution of the supervisory framework. However, a number of other agencies play an important if more intermittent role in the parastatal process. Table C1 lists all the bodies and layers which presently manage or supervise Tanzanian parastatals.

Table C1

TANZANIA - PARASTATAL MANAGEMENT AND CONTROL AGENCIES

AGENCY	FUNCTIONS - COMMENTS
I. General Supervisory and Control Agencies	
1. Workers' Council	Reviews and approves corporate plans and budgets. Composed of representatives of workers and management. In every parastatal.
2. Management Committees	Equivalent of Boards of Directors; found in operating companies (subsidiaries of holdings). Responsible for corporate policy, reviews and approves corporate plans, budgets, annual accounts and financial statements, capital investments and financing, and approves appointments of personnel other than the General Manager (GM). Made up of workers - 40 percent - and non-workers. Of the non-workers, 40 percent come from management, 60 percent from outside. The Board of Directors of the parent holding company appoints Management Committee members. The Board of the holding also appoints the Management Committee Chairmen. (Up until 1984, the General Manager of the holding company was, in most cases, the Chairman of the Management Committee.) The Board is normally composed of from 6 to 12 members.

3. Boards of Directors	Found in holding companies (17) and in the large number of major parastatals which are independent; i.e., not a subsidiary of a holding. Its duties are the same as those of Management Committees. Composition: from 6 to 12 persons, formerly composed mainly of civil service representatives of relevant ministries and members of parliament. As of 1984, MPs no longer may serve on Boards. Boards are still mainly composed of civil servants. Both Management Committees and Boards are supposed to meet quarterly. Chairmen of Boards are appointed directly by the President of Tanzania.
4. General Managers	GMs of operating (subsidiary) companies are appointed by the Board of the holding company. GMs of holding companies and independent parastatals are appointed directly by the President of Tanzania. GMs of operating companies are responsible for management and financial performance of their units; GMs of holdings are also responsible for their subsidiaries' performance.
5. Holding companies	Formulate long-range policy for their group, set financial and general performance targets, facilitate availability of inputs, advise and assist on sector-wide technical, recruitment and training issues, supervise and review company budgets and financial statements. Some holdings require and review corporate plans of subsidiaries.
6. Parent ministries	Determine policy for their sectors; recommend on the establishment or dissolution of parastatals, establish guidelines for parastatals and evaluate performance. Review and approve corporate plans, budgets, financial statements, accounts and capital investments; and appoint all members of the Boards of their parastatals, except for the Chairmen.
7. Central ministries Finance & Planning	The Commissioner for Sectoral Planning in DEVPLAN is responsible for review and approval of proposed capital investments of parastatals.

	In Finance, the Treasury Registrar/ Commissioner for Public Investments approves the annual budgets and investment plans, sets financial targets, supervises financial performance and advises on needed improvements, sets dividend policies and holds shares of parastatals.
Labour and Manpower	Monitors training programs of parastatals, reviews labor productivity and production targets, manages employee bonus system (through its Permanent Labour Tribunal - which also administers labor agreements and adjudicates labor disputes); monitors workers' rights legislation, issues work permits for expatriates.
8. National Assembly	Enacts legislation creating or dissolving parastatals, reviews performance.
POC	Parastatals Organisation Committee - Annually reviews reports of Tanzania Audit Corporation; calls managers before it to explain poor performance or non-submission of information, and recommends fines up to 15 percent of one month's pay for financial loss or deficiencies or mismanagement. levies fine - 15 percent of one month's pay - for flagrant mismanagement or non-submission of information
9. President of Tanzania	Establishes parastatals; appoints Chairmen of Boards of Directors and GMs of holdings and independent parastatals.
10. CCM	The Chama cha Mapinduzi (Revolutionary Party), the sole political party in Tanzania, has a Standing Committee on Parastatals that formulates policy for the sector and advises parent ministries on steps to improve company performance.

II. Specific Supervisory and Control Agencies

11. TAC	The Tanzania Audit Corporation audits all parastatal accounts and prepares an annual report reviewing financial performance and recommending changes. The audited accounts are sent to the parastatal boards with copies to relevant agencies; the annual report is submitted to the President with copies to relevant agencies including POC.

12. SCOPO	The Standing Committee on Parastatal Organisation, reporting to the Office of the President, was originally created to assist in staffing parastatals. Latterly, it was assigned responsibilities for defining pay scales, allowances and fringe benefits and schemes of service to ensure uniformity and fairness in pay and benefits. It also approves the organizational structure of each parastatal develops training programs.
13. Registrar of Companies	"Empowered to regulate the affairs of companies established under the Companies Ordinance (Cap.212), whether public or private" [Mkulo, 1985, 178]. About 250 Tanzanian parastatals, most of them subsidiaries of holdings, are established under this act and are thus subject to its requirements. The Ordinance requires parastatals to submit to the Registrar of Companies accounts and financial statements for review and approval.
14. TIB	The Tanzania Investment Bank provides medium and long term credit. Starting in 1986 it was made responsible for monitoring implementation and disbursement of funds for industrial projects. Starting in 1987, it was made responsible for some project appraisal work as well. Legal and technical problems have inhibited initiation of these new responsibilities.
15. CRDB	The Cooperative Rural Development Bank, which provides short, medium and long term credit mainly to the agricultural sector, has been assigned similar new responsibilities for parastatal investments in agriculture and faces similar implementation problems.
16. Bank of Tanzania	The central bank provides foreign exchange licenses and reviews and approves requests for expatriate staff.
17. NBC	The National Bank of Commerce provides and allocates short term credit, including that to marketing parastatals, honors foreign exchange licenses and thereby, in effect allocates foreign exchange.

18. Price Commission	Administers price control mechanisms; reviews and approves - or adjusts or denies - parastatal requests for price increases.
19. NPC, TBS & TLC	The National Productivity Council, the Tanzania Bureau of Standards and the Tanzania Legal Corporation are indirectly involved in parastatal supervision, as parastatals are frequently instructed to seek their advice on planned actions.

11. Table C1 shows the number of institutions involved in parastatal supervision, and it also reveals the large number of check points through which - in theory - certain parastatal activities must pass. The budgets of operating companies in commercial or industrial fields, for example, should be reviewed and approved by six different layers: the Workers' Council, the Board or Management Committee, the holding company, the parent ministry, the Registrar of Companies and the Ministry of Finance and Planning. The same is true of the corporate plans of these firms.

12. Another way to envision the supervision scene is by listing what management theory posits and what analysis of public enterprise experience in other countries reveals to be the necessary functions which supervisory agencies should fulfill, and then examine if and where these functions are performed in Tanzania. This is done in outline fashion in Table C2.

Table C2

PARASTATAL OVERSIGHT FUNCTIONS AND STRUCTURES

Key Oversight Functions	Institutional Location in Tanzania
Set policy for parastatal sector	National Assembly CCM Office of the President
Set policy for sub-sectors	parent ministries holding companies
Review & approve budgets and corporate plans	Workers' Councils Boards or Management Committees holding companies (where applicable) parent ministries Registrar of Companies (where applicable) Ministry of Finance and Planning

Review and approve:	
subventions	holding companies, parent ministries, Ministry of Finance and Planning, Board of Directors (BODs) investments
investments	holding company, parent ministry, BODs, Ministry of Finance and Planning, investment banks
dividends	holding company, parent ministry, BODs, Ministry of Finance and Planning
Appoint GM of major company	parent ministry provides short list, President makes choice
Appoint GM of operating co.	Appointed by BOD of holding company
Appoint Board of Directors	Directors appointed by parent ministries, some few parastatals' by-laws stipulate appointment of users or creditors; Chairmen appointed by President
Appoint Management Committee	BOD of holding appoints Directors and Chairmen; parent ministry approves
Performance Monitoring	BODs or Management Committees, holding companies, parent ministries, Finance & Planning, TAC, POC, CCM, credit-supplying and investment-analyzing banks, other central ministries, President's office, Presidential commissions
Analyze sectoral trends & macro-economic impact	Ministry of Finance & Planning

13. Table C2 indicates illustrates the over-lapping of responsibilities among Tanzanian oversight bodies, particularly in the case of the scattered responsibilities for budget and plan review, and performance evaluation. But what this type of presentation does not and cannot show is the deficient and inadequate performance of the agencies assigned the supervisory tasks; nor does it show the bureaucratic burdens placed on parastatal managers by these bodies. The depth of the problem of the Tanzanian institutional framework is better revealed by an analysis of what actually takes place in practice.

Deficiencies of Present Tanzanian Supervision Practice

14. Enterprise management. Enterprise management is weak as evidenced by the fact that a substantial percentage of managers cannot run their firms with a minimal level of financial discipline. In 1985/86, a third of the parastatals were delinquent in producing basic accounts and of those that did, three-fifths were deficient; of those with clean audits, one-fourth were making losses. Few Tanzanian parastatals carry out regular inventories of their assets, controls over use of credit and cash are weak, records on procurement and transactions with subsidiaries are often missing or incomplete, internal auditing procedures are often weak or non-existent, and allegations and proven instances of fraud, corruption and theft are common. While there are shortages of competent accountants or middle-level financial and technical personnel, in those parastatals with particularly effective management--Air Tanzania, the NTC and the Tanzania Cigarette Company, for example--internal procedures have been maintained or brought up to acceptable standards. Good managers exist in Tanzania, but they appear to be few in number.

15. Management Committees and Boards of Directors. These bodies are often characterized as ineffective. First, many meet far less than the stipulated four times per year. Second, the vast majority of persons appointed to Boards are middle-level civil servants representing a ministry. They seldom possess appropriate skills or detailed knowledge of the enterprise they are supposedly directing; they are frequently shifted from board to board, filling in at the last minute for a higher official who cannot attend; they tend to view their role as protecting the interests of their ministry, a goal that is not always compatible with advancing the welfare of the parastatal. The regulations stating that no individual should serve on more than three Boards is regularly violated, as is the regulation stating that Boards should number ten persons or less. In the absence of detailed knowledge of the workings of the firm, training on the proper role of a Board member, and preparatory materials on the agenda of the Board meeting, it is not surprising that parastatal Boards have not served their functions as policy-makers, performance evaluators, supervisors of management and buffer between the enterprise and the Government. Management Committees have at least been composed mainly of persons knowing the business of the parastatal concerned; but they have been subservient to the Chairman who, until recently, was always the General Manager of the holding company. The removal of MPs from Boards, and the rule prohibiting GMs of holdings from chairing Management Committees, were progressive steps. Third, Boards of public corporations have limited power to select, appoint and remove the General Manager. The situation is different for subsidiary companies, where management committees do play a significant role in appointing, disciplining and removing general managers. According to the TAC, "boards do not ensure that managements achieve set targets of performance. Even where targets are set, weak boards often accept inadequate explanations from the managements for shortfalls in performance" (TAC, 17th Annual Report, 1986, 15).

16. Holding Corporations. The idea of a holding company is appealing. A well-working holding could both offer technical support and general advice to weak managers, and insulate them from excessive political interference. In Tanzanian practice, the record is mixed. The National Development Corporation (NDC), oldest of the holdings, generally manages to turn profits and moderately positive returns on investments in its consolidated holdings--though profits tend to be small and dividends negligible. Consolidated accounts of other holding companies typically show losses. Holding corporations are criticized for concentrating on expanding their portfolios without adequate analysis of new investment or sufficient and effective monitoring of on-going projects; for not setting profitability as a prime goal (both operating and holding companies are instructed to "avert and minimize losses"); for inadequate performance evaluation; for not safeguarding the autonomy of managers; and generally for adding bureaucratic layers and regulations to parastatals, rather than managing their subsidiaries according to commercial principles. It is clear that Tanzanian holdings have never performed one key role of private sector holdings in the industrial countries: that of divesting their portfolios of non-performing companies.

17. Parent ministries. Sectoral or parent ministries should play a most important supervision role. In theory, they possess the specialized knowledge and expertise of sector conditions which is necessary to guide and orient their dependent enterprises. The ministries should have either the personnel or the knowledge of personnel who could staff and direct parastatals in their field of endeavor. They should provide their parastatals with access to the financial, human and physical resources which are necessary to their proper functioning. In reality, Tanzanian parent ministries have not lived up to expectations. They have recommended the starting of new projects or companies without adequate--indeed, sometimes any--examination of feasibility. They have not monitored financial performance, nor have they provided parastatals with clear objectives or competent Board members. As is the case with all other layers and agencies of supervision, they have consistently failed to enforce existing regulations with regard to the production and submission of basic accounts or other financial and production information. The response to the Prime Minister's directive in 1980, requiring parent ministries to create special parastatal monitoring units, was insufficient. Most ministries simply instructed one official, usually of relatively junior rank, to add parastatal supervision to his or her existing duties. Some ministries, such as Natural Resources and Tourism, assigned the responsibility to a senior official, but the task of reviewing the work of two dozen firms exceeds the capacity of any individual. Only in the Ministry of Agriculture, did the directive result in the expansion of a supervisory unit, called the Project Preparation and Monitoring Bureau (PPMB).

18. As the name implies, the unit was originally formed to prepare, appraise and manage projects. It still has some responsibilities in this field, but much of its work now deals with installing management

information and reporting systems in agricultural parastatals, collecting and analyzing the data produced by these systems and sending back directives and recommendations to the parastatals on how to correct perceived problems. Since 1984, the PPMB has been supported by technical assistance; it now consists of nine professional level staff (and established slots are available for a further nine), of which two are UN-provided technical experts. PPMB leadership admits that it is only at present, after several years of concerted effort, that the Bureau is beginning to have an impact on information production and distribution systems in the ministry's parastatals. Nonetheless, it must be admitted that the PPMB has not yet succeeded in instilling financial discipline in agricultural parastatals, and its activities have centered on analyzing past actions, rather than providing parastatals with stimulative signals on performance, or incentives to cut costs and generate profits or revenue. None of the other parent ministries has devoted a similar amount of time and resources to the parastatal monitoring task. If they were to do so, it is reasonable to assume that they too would need at least three years (and donor assistance) to reach a minimal level of effectiveness. The conclusion must be that to date parent ministries have not played their assigned role in supervising parastatal operations. And this judgement encompasses the PPMB, which has yet to demonstrate that it can check mismanagement and non-reporting in the agricultural parastatals.

19. Ministry of Finance, Commissioner of Public Investments/Treasury Registrar. The key central institution supervising parastatals has been the Ministry of Finance. As noted in paragraph 14, the legal powers of the reviewing offices in Finance cover all areas of parastatal activity. But by every standard, and according to all observations including those of concerned officers in the Ministry itself, their performance has been deficient. Parastatal enterprises have been established without an analysis of prospects for their future economic or financial performance. Investments have been made without an appraisal of their quality. Capital restructuring has been undertaken without any review of what use was made of past capital injections. Discipline is not imposed on managers who consistently fail to submit required information to the Ministry. There is no evidence that any attempt has ever been made to formulate a sectoral policy or advise highest decision-makers on how to deal with the disappointing performance of parastatals. In sum, it does not appear that the Ministry undertakes the numerous supervision tasks for which it has responsibility. Why is this the case?

20. One issue is the problem of staffing; this is closely related to the issue of the relative status of officers in the financial supervisory bodies. For example, the post of Commissioner was vacant for two and one-half years in the early 1980s, and it once again fell vacant after the departure of the second Commissioner--to return to a post in a holding company--in November of 1985. The post has remained unfilled through December, 1987. The Assistant Commissioner for Inspections post was filled once, for a relatively brief period, and has not been filled since the late 1970s. On paper, the two other Assistant Commissioners are supposed to

divide the inspection responsibilities; in reality, the tasks are not done. Supervisory officials state that their demands for information and suggestions for reform are ignored by parastatal managers; and that they have no way to force them to comply. The Commissioner's office in effect now simply reacts to the published reports of the Tanzania Audit Corporation, sending out letters asking for explanations of poor performance and advising the companies to follow the recommendations offered by the TAC. Parastatal response to the letters has been rare; Treasury follow-up to the initial letter equally so.

21. A second problem is the quality of supervisory staff. As of 1985, the Commissioner's office had a staff of twenty-six officers with training in economics, accounting, finance or statistics. In theory, this number of professional staff might be sufficient to oversee the activities of the sector, large though it may be. (The SEST, Brazil's oversight agency, has sixty professional staff to supervise 250 public enterprises, the financial size of which is far greater than that of Tanzania's sector.) In reality, the Commissioner's junior and middle staff are young, inexperienced and without much knowledge of commercial operations. Without basic data on enterprise operations and performance, experience, or the status necessary to influence managers, the monitors within Treasury are weak and ineffective.

22. Parastatals Organisation Committee of Parliament. The POC has become increasingly active since the expansion of its mandate, in 1981, to inquire into any area of parastatal activity and performance (and not just matters of accounts). This coincided with the upsurge of official and public discontent regarding parastatal performance. Meeting from January to May of each year, and holding inquiries in several major towns, the Committee reviews the reports of the TAC and calls before it managers to explain either the failure to submit accounts and financial statements, or persistent poor parastatal performance. It has effectively used its power to recommend to Treasury fines for mismanagement or financial deficiencies. In the past, managers have sometimes ignored the committee's summons to appear and present information; but there is recent evidence that it is being taken more seriously.2/ On the other hand, the Committee's resources and time are limited and it has been unable to effect an annual review of all the problem parastatals.

2/ A recent court ruling may make the committee more cautious in exercising its powers. The Governor of the Bank of Tanzania (BOT), who was recently fined by Treasury upon recommendation by the committee, took the Government to court arguing that (1) according to the BOT act, his salary cannot be reduced by anyone other than the President; and (2) the levy was applied for failure to provide records to the committee in the stipulated time, but according to the law it can only be applied for financial loss or deficiencies or mismanagement which were never raised as issues. The court upheld these claims. But the incident also places managers on notice that the committee intends to exercise its powers wherever it can.

23. Tanzania Audit Corporation. The TAC is a bright spot in the Tanzanian institutional setting. It is well-run, applies stringent standards, issues critical but constructive reports without fear or favor, and is the major supplier of performance information to the country at large, to parliamentary reviewers, and even to the other supervisory agencies which should possess their own parastatal performance information systems. Recent TAC Annual Reports have been scathing in their denunciations of accounting arrears and poor accounting practices in parastatals. Parastatal accounts very often show supposed sales of inventory to purchasers who have no record of receipt. Many entries under "debtors" are purely fictitious and might more properly be labelled "losses." Up until recently basic book-keeping was not simply deficient; it was often non-existent. Budgets are produced without solid foundation. None of the supervisory bodies, from the Boards of Directors, on through the sectoral holding companies, to the parent ministries, SCOPO, Treasury and Development Planning, receives the basic information on which to make sound policy decisions or evaluate performance. In its reports the TAC goes far beyond analyses of accounting deficiencies; the report for the year ending 30.6.85, for example, dealt with a range of causes of low profitability including ineffective management, ineffective Boards of Directors and overstaffing, in addition to factors more traditionally in the purview of auditors: poor control of expenditures, inappropriate financial structure, poor management of working capital and poor planning of investments. In short, the TAC carries out effectively its assigned tasks, and indeed does far more than respond to its official mandate. Nonetheless, there are limitations on what one can expect from the TAC. It is composed of auditors, whose perspective on parastatal performance is somewhat narrow. It analyzes past performance and points out errors and deficiencies; its assignment is not to stimulate and promote productivity and efficiency. The TAC is effective and necessary, but it is not, in and of itself, sufficient to carry out the parastatal supervision process.

24. Standing Committee on Parastatal Organisation. In contrast to other supervisory agencies which are often criticized for failing to do their job, the most common criticism of SCOPO is that it does carry out its assignment, but that in the process it interferes needlessly and excessively in enterprise affairs. It sets wages for each category of worker, in the process forcing workers into categories it believes to be comparable in the civil service and across all types of commercial and non-commercial parastatals. It reviews and approves changes in parastatals' internal organization, aiming for more uniformity than is often appropriate. The same tendency towards detailed uniformity is present in most issues it is concerned with.

25. Given the sometimes low level of expertise and experience in these matters, plus the scope for paying inappropriate wages and expanding the workforce beyond what is cost-effective in public enterprises, where no one is automatically motivated to represent the interest of the owner, it is useful to have some central agency that prepares guidelines and serves as a watchdog. But at this point in the development of Tanzania's parastatal

sector, these tasks could be undertaken more effectively with a less heavy hand. For example, in the area of salaries and benefits, SCOPO could limit itself to classifying parastatals and setting salaries only for top management, allowing the Board and management to set the remaining salary structure subject to minimum wage regulations and general guidelines.

26. Other agencies. The Office of the President, as in many countries throughout the world, has the final say or at least a strong influence, over who shall manage and who shall chair boards of major parastatals. Also as in most countries, this procedure has resulted in appointments of many persons without adequate qualifications. The Cabinet makes a variety of decisions with regard to parastatals, often of necessity without adequate factual information or studies to guide its deliberations. On many occasions, for example, it has granted increased tariff protection to natural monopolies which do not cover operating costs let alone replacement investments or expansion. The Registrar of Companies is moribund; it plays no role at all in parastatal supervision, despite its responsibilities under the Companies Ordinance. The investment banks, the TIB and the CRDB, have been assigned new roles with respect to parastatal investments but for legal and technical reasons are not yet performing these functions--with the immediate result that these functions are ill-performed anywhere in the system.

APPENDIX D

ANALYSIS OF QUALITATIVE AND SCOPO DATA

1. This appendix presents the conclusions of a study undertaken as part of the project to develop this report.1/ It is based primarily on two data sets: a field survey of 76 enterprises (50 public and 26 private) and a sample derived from responses to questionnaires sent to all parastatals by SCOPO (130 commercial enterprises of which 17 are District Development Corporations, 45 provide financial and business services and 56 are in manufacturing; and 21 non-commercial organizations). Data derived from the Bureau of Statistics questionnaire used to prepare its Analysis of Accounts of Parastatal Enterprises was also used to round out the picture.

2. The purpose of the study was to identify elements in the economic, policy and regulatory environment facing parastatals that if changed would lift constraints or change incentives in such ways as to induce more efficient operations. The identification of such elements cannot usefully be undertaken without reference to the way these same factors affect the private sector. The two sectors operate in the same economy, face the same economic circumstances (at least to the extent they operate in the same markets), and many of the same policy instruments are applied to both.

3. There is widespread belief that the private sector is more efficient than the parastatal. Studies in support of this claim exist but they all suffer the shortfall of applying the same performance indicators to both sectors even when the objectives of the two may differ. But suppose these studies and the claim are correct the question that remains is, what causes these differences of performance in the two sectors? There is also widespread belief that the private sector is being crowded out, resourcewise. If this were true, together with the claim that the private sector is efficient than the parastatal then a very straightforward answer would be, stay away from the parastatal. Unfortunately this study did not go to the extent of comparing the performances of the two sectors. However, what this part of the study did was to ask questions. Are the two sectors facing different constraints? Do they operate under different environmental conditions? These questions and the like were answered by formulating hypotheses and attempting to test them by using indicators. For example, the hypothesis, on management education and experience was tested by using formal education, existence of training programs, age, length of stay in an institution as employee and manager, etc.; that on incentive was tested by using the level of both cash and non-cash benefits, the degree of competition and controls.

1/ Joseph J. Semboja, The Parastatal Study: Analysis of the Qualitative and Scopo Data, University of Dar es Salaam, July 1987, and is available from the author

4. The results indicated that there are significant areas of similarities but there are also areas of differences. For example, whereas in such areas as formal education, management training, length of stay in an institution as an employee and non-cash benefits the parastatal sector has an edge over the private sector, in other areas including age of manager, length of stay in an institution as an employee and non-cash benefits the parastatal sector has an edge over the private sector, in other areas including age of manager, length of stay in an institution as manager, mobility of management, and cash benefits (salaries) it is the other way round. In the area of accountability it was observed that the parastatal sector was not doing well although lack of data constrained us from comparing results with the private sector. It was noted that part of the explanation of this (accountability) laxity may arise from the incompatibility between the appointment and reporting procedures. It was hypothesized that the present procedure in which the appointee reports may be a source of indiscipline in the parastatal sector. This discrepancy was found to be minimum in the private sector.

5. In the area of competition and controls it was not possible to arrive at a conclusive statement due to insufficient information. There were, however, indications that the private sector was exposed to more competition than the parastatal sector although both sectors enjoy a significant degree of monopoly depending on the type of activity involved. Indeed the degree of competition/monopoly depends on the type of activity rather than on ownership. Furthermore, price controls appear to be more prevalent in the parastatal than in the private sector but again as in the degree of competition both have significant amount of control over their prices. Surprisingly even for those whose items are not under price control the method of price determination is cost-plus for the majority to the extent that one can not attribute the parastatal inefficiency to cost-plus pricing.

6. Focusing on financing of working capital and other purposes it was noted that both the parastatal and private sectors depend mainly on internal funding. Furthermore, both receive subsidies and overdrafts and bank commercial credits. The hypothesis that the private sector is being crowded out was not supported although it is not sensible to suggest that the information used in this report is sufficient to refute the claim with high confidence.

7. The results of this study point to the conclusion that it may not be appropriate to discuss policy reforms along parastatal constraints. This is because both the parastatal and private sectors operate in the same environment and differences in the way they are affected by policy instruments does not appear to be a function of ownership but rather of type of product. Thus General Tyre (EA) which is jointly owned has been receiving more priority from the government than Friendship Textile Mill which is 100 percent state owned. When one makes a visit to the key economic ministries one sees as many CE from the parastatal as from the private, each one

attempting to secure resources and getting around the system which is constraining both of them. Thus, when seeking for reforms it will not be appropriate to focus on those which are parastatal centered. Rather we should concentrate on macro reforms, those which affect both, unless we are convinced that specific constraints which require specific reforms exist. For example, any requirements from the government which demand that enterprises should produce at a profit or perish should be accompanied by the decentralization of authority which empowers the management of these enterprises to play the commercial game. Here the change does not have to be sector specific.

APPENDIX E

EXAMPLES OF STATEMENTS OF GENERAL PRINCIPLES

FOR PARASTATAL SECTOR: SENEGAL, BENIN AND THE PHILIPPINES

BENIN

PUBLIC ENTERPRISE SECTOR REHABILITATION PROJECT

POLICY STATEMENT FOR A REHABILITATION PROGRAM OF THE PUBLIC AND SEMI-PUBLIC ENTERPRISE SECTOR 1/

A. General

1. The national policy of State ownership undertaken in 1974-75 reflected Benin's fundamental choice and its political, economic and social needs. Its purpose is to enable the State to more effectively control the country's economic development process, to foster the accumulation of resources necessary for financing this process, to ensure optimum utilization of those resources, thereby enabling the Beninese economy as a whole to benefit directly and comprehensively from the fruits of expansion.

2. The expected effects have not been fully achieved on account of:

a) the inadequacy of the public and semi-public enterprises' financial resources;

b) the nonpayment of the share capital of certain public and semi-public enterprises;

c) deficient management and the lack of experience of certain managers;

d) the inadaptation of the institutional environment; and

e) the protracted serious and far-reaching international economic crisis that led to a steady deterioration of the terms of trade, higher external debt burden, and higher cost of imports (in particular energy, inputs and essential commodities).

3. The financial situation of certain public and semi-public enterprises has severely been affected by these conditions and the public sector as a whole has drained off a sizable proportion of the State's resources, either through the national budget or the financial system, thereby seriously eroding the financial stability of the country's banking system.

4. The Government, in recognition of these difficulties, has taken certain corrective measures to ensure the harmonious development

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1/ Unofficial translation.

of the public sector within the framework of the nation's economic objectives. Some important decisions were taken in April 1982, aimed at:

a) liquidating or merging a number of state enterprises;

b) closing down most of the provincial enterprises;

c) installing new management teams in several enterprises;

d) raising the prices of selected products;

e) improving enterprise management and productivity by introducing a personnel incentive system;

d) reforming the institutional framework of the public and semi-public enterprises, and

e) strengthening management control.

However, it has not been possible for these decisions to be fully implemented and the expected results have not materialized.

5. The 1983-87 Development Plan confirmed this orientation and emphasized, among its objectives, the necessity of improving the economic efficiency and financial results of the public enterprise sector, on the one hand, and of reexamining the State's participation in the various sectors of the economy, on the other. The Plan also stressed the need to mobilize domestic and foreign private capital.

6. The following Policy Statement is in keeping with the 1974-75 nationalizations, the reorganizations of 1982 and the 1983-87 Development Plan. It has two parts. The first part delineates the scope and the role of the Public and Semi-Public Enterprise Sector and the second sets out the reforms to be undertaken to improve the conditions under which these enterprises carry out their activities. This Policy Statement is accompanied by an Action Program for implementation of the proposed reforms.

B. Role and Delineation of the Public and Semi-Public Enteprise Sector

1. Definition

7. The purpose of State ownership in enterprises in Benin is to:

a) control the economic development process;

b) facilitate the accumulation of resources necessary for financing this process;

c) ensure the optimum utilization of these resources; and

d) enable the economy as a whole to benefit directly and comprehensively from the fruits of expansion. The objective of the Beninese public and semi-public enterprise sector is to implement the Government's economic and social policy when State ownership is deemed to represent the best way of achieving such objective. Four categories of enterprises have been identified as belonging to the public and semi-public sector:

(i) enterprises providing public services to meet social needs; these are in general of limited commercial attractiveness: postal services, water supply, power generation and distribution, hospitals, etc.;

(ii) enterprises in sectors of strategic or vital interest to the economy over which the Government wishes to exercise full control (e.g. ports, airline, importation of oil products, banks, insurance, etc.);

(iii) enterprises so large that the Government wishes to control their activities either through full ownership or a majority or minority shareholding (e.g. ONIGBOLO Cement); and

(iv) enterprises engaged in activities the aims of which are in accordance with the national economic policy and in which State participation is necessary either because they have not attracted private investors or because the State's presence is essential for securing foreign financing (e.g. Savé Sugar Company).

8. All economic or commercial activities not falling within the above categories will be open to the domestic and foreign private sector, subject to prevailing regulations. To the extent that the private sector is not forthcoming, the State reserves the right to step in provided such State initiatives are justified by a thorough study establishing the economic and financial viability of the enterprise in question and the possibility of mobilizing the human and financial resources necessary for achieving the aims pursued.

9. Liquidations. The Government has decided to liquidate nonviable enterprises not falling within the framework set forth above. The 1982 reforms set in motion the liquidation or merger of a certain number of public enterprises. This effort will be continued: the Government will reexamine the number of enterprises in the public and semi-public sector and will draw up a list of enterprises to be liquidated and a timetable to implement these decisions.

10. Opening up of Certain Activities. The Government will take steps to open up sectors of economic activity in which State control no longer appears vital for pursuit of the priority goals of Benin's

economic policy. This will be achieved in various ways: by the opening of capital to private investors, by increasing the private sector's share in mixed ownership companies, and by bringing the private sector into sectors heretofore subject to state monopoly. The sectors best suited for this opening are:

a) textiles (e.g. SOBETEX);

b) building/construction (e.g. SONACOTRAP);

c) transport, freight forwarding/consignment (SONATRAC, SOTRACOB); and

d) importation and distribution (AGB, SOGECOB).

The State will give priority in opening up these sectors to Beninese nationals with requisite competence or financial resources before seeking out foreign investors.

11. Investment Program. The Government will draw up a specific investment program for the public and semi-public enterprise sector for each fiscal year. Taking into account the liquidations and privatizations to be effected, this program will not exceed the level reached in 1982.

12. Creation of New Public and Semi-Public Enterprises. The creation of new state enterprises will be limited to the categories defined in paragraph 7. In addition, establishment of any new state enterprise will be subject to an analysis demonstrating its economic and financial viability.

C. Environment and Operation of Public and Semi-Public Enterprises

13. In the context of its rehabilitation policy for the public and semi-public enterprise sector, the Government will pursue its efforts to improve the environment and operation of the enterprises, especially with regard to their regulatory and institutional framework, the monitoring system, incentives, and pricing policy.

1. Regulatory and Institutional Framework

14. Supervision and Management of State Enterprises. The supervision of the public and semi-public enterprises will be rationalized and the roles of the supervisory bodies and management (supervisory ministry, board, management committee, management, etc.) will be clarified in order to avoid duplication of responsibilities and confusion, and to allow the enterprises autonomy once their objectives have been defined. The composition of the Board of Directors will be reviewed to increase its efficiency. The Board will entrust the management with the responsibility for handling day-to-day operations.

15. Enterprise Autonomy. The managers of public enterprises will have the necessary freedom of action, within the objectives set by the Board of Directors and the supervisory authorities. This autonomy will extend to all day-to-day management acts such as dismissals/hirings, choice of suppliers, etc.

16. Enterprise Control and Management Information Systems. The internal and external control of the enterprises will be strengthened in parallel with greater management autonomy. The Government will refine its tools for monitoring the operations of the semi-public and public enterprises. A management information system will accordingly be set up to provide the Government and the enterprise managements with operating and financial data and other essential indicators of the health of the enterprise. This system will also be intended to help management and the Government authorities to evaluate the results of the operations.

17. Efficiency of Public Enterprise Management and Incentive Systems. A performance monitoring system will be set up in each public or semi-public enterprise. In addition, the Management of each state enterprise will determine each year, in agreement with its supervisory authorities, the performance criteria to be applied for comparing actual results with forecasts. Enterprise managers will receive incentives based on performance and the staff will benefit from a bonus sytem.

18. Uniform Accounting System. The Government will ensure the rigorous application, country-wide, of the National Accounting Plan introduced on January 1, 1983.

2. Prices

19. Pricing Policy:

a) the prices of public services will reflect, to the extent possible, the cost of the services; and

b) the prices of manufactured products will be set, to the extent possible, by market forces.

If market prices are too low to cover costs and ensure the financial viability of the operations in the short term, budgetary subsidies will be allocated that will be fixed in advance for the next financial year. In addition, the Government will support specific price reform recommendations included in the rehabilitation plans to be prepared for each individual enterprise.

20. The price Review Mechanisms will be reexamined with a view to reducing the time required for obtaining approval for changes. The list of imported or local products will be reviewed and non-monopoly products that are not of strategic importance or do not meet essential social needs will be taken off the list.

21. Financial Discipline will be improved and the time taken to settle the financial obligations of the state enterprises will be reduced. The process of clearing reciprocal debts in the public and semi-public enterprise sector begun in 1983 will be continued and extended to the whole sector.

22. Allocation of Profits of State Enterprises. The State will give enterprises greater flexibility in allocating their profits and surpluses, thereby increasing their capacity for financing necessary investments and maintenance expenses.

3. Rehabilitation of State Enterprises

23. The Government will initiate specific studies for a selected list of state enterprises.

24. For those enterprises diagnosed as potentially economically and financially viable, these studies will lead to rehabilitation plans that will specify the measures to be undertaken by the enterprise on the one hand, and the State on the other, to enable the enterprise to operate on a sound footing. The rehabilitation plan will also specify the performance indicators and evaluation criteria.

25. The Government will submit these rehabilitation plans to IDA for approval and financing. For those enterprises diagnosed as non-viable, a liquidation plan will be prepared and executed. In the assistance requested from IDA, the Government would like severance payments to be taken into account on the same basis as the other physical and financial restructuring elements.

November 1984

SENEGAL: THE NEW STATE POLICY FOR THE PARAPUBLIC SECTOR, JULY 1985.

I. GOVERNMENT STATEMENT ON POLICY FOR THE REORGANIZATION AND REHABILITATION OF THE PARAPUBLIC SECTOR.

Senegal's parapublic sector consists of more than 80 entities (public establishments, national corporations, mixed-capital corporations) under full or majority State ownership, and of a portfolio of minority holdings in more than 100 enterprises.

This major sector, a legacy from colonial times, has been progressively expanded since independence as a result of the desire of the State to broaden its control over strategic national resources, infrastructure and public services, to encourage production in sectors where private initiative was found to be wanting, and to expand the management and employment opportunities available to the Senegalese people. The State is currently involved in practically all sectors of the national economy.

Now, after 25 years of independence, the efficiency of this involvement is now being questioned. Is the parapublic sector equipped to contribute towards the recovery and development of the national economy? Doesn't its sheer size prevent national economic agents from playing a more active role in accomplishing these goals? Is the financial cost borne by the community to offset the total deficit of the parapublic sector consistent with the austerity that is a crucial element of the Government's policy to reestablish financial and economic equilibrium?

The new State policy for the parapublic sector aims to create a general framework that will restimulate the national production potential and bring about the more efficient management of national resources. It proposes a general strategy and selective actions tailored to each enterprise. This strategy can be summed up by the following concept: <u>less management but better management</u>. The actions are based on two forms of reorganization for the parapublic sector: (1) the withdrawal of the State from enterprises where

its involvement is no longer needed and (2) the rehabilitation of enterprises remaining under State supervision.

I. Withdrawal of the State

1. Objective

The expansion and diversification of the parapublic sector have monopolized a large proportion of the State's financial and human resources. Numerous rehabilitation attempts have failed to relieve the deficit burden, which is jeopardizing the success of efforts to restore the public finances to good health. The State also lacks the experience and organizational skills needed for the dynamic management of commercial enterprises.

The withdrawal of the State is one of the main focuses of the Nouvelle Politique Agricole (New Agricultural Policy). The reduction in supervisory structures is justified by measures to make the various agents in the rural environment more accountable. The same should hold good for the other entities in the parapublic sector, in order to mobilize private initiative into the management of activities that come under the private sector's sphere of responsibility, while relieving the financial burden of State aid.

The State must minimize its area of involvement in commercial enterprises and focus its attention more efficiently on its priority goals. The principle of the policy will be for the State to withdraw when it is found that a service or a product can be obtained at a lower social cost by other means or when, for a given social cost, a more useful and better quality service or product can be obtained through State withdrawal.

This principle aims at identifying those enterprises, the "hard core," that must be kept in the parapublic sector because they perform their

public service role effectively or play a strategic role in the development of economic activities.

The withdrawal process will have to be diversified and adapted to the particular situations of the individual enterprises so that the transition process is handled appropriately.

Of course, while it would be a mistake to obstinately retain those enterprises that lend themselves to privatization, it would be just as much a mistake to cast them off too hastily. Moreover, State withdrawal will also only make sense if the private sector gets more deeply involved in investment and employment generation. If the sector becomes stymied, as can happen, by a tendency to wait for changes to occur or by a demanding attitude toward the Government, there is little hope of Senegal winning its economic wager.

This withdrawal process should result in a significant reduction in the State's portfolio.

2. Strategy

The withdrawal strategy will be based on a systematic review of the State's portfolio, a precise methodological and institutional structure framework, and any support measures that are needed to ensure smooth implementation. It will take account of the formulation of policies for State involvement in sectors incorporating a large number of public enterprises (industry, transport, housing, banking).

The process can take several forms:

- regrouping of enterprises;
- partial or total transfer of shares held by the State;
- disbanding of units which have completed their missions;
- transformation, if necessary, into non-corporate public services.

The strategy will be perfected with experience but will be based on

the following principles. Any withdrawal will normally be preceded by a professional study confirming its suitability, comparing available options and recommending a timetable and procedures.

Selection will primarily take the interests of the community and the taxpayers into account but will also consider the State's financial goals and the individual interests of users or customers and employees. Depending on need, measures will be taken both to safeguard both the assets of the enterprise and to ensure their fair transfer price for the State, particularly by creating competition among buyers, and to provide Senegalese buyers with any technical assistance that is warranted and to give them the best possible opportunities of helping to run the national economy.

First and foremost, studies of eligibility for withdrawal will be conducted on enterprises whose general-interest public-service role is non-existent or minor. These enterprises generally comprise all those engaged in the production of commercial goods or services and particularly those that are already experiencing active competition from the private sector.

Of these "minor public-service" enterprises, those with the greatest net-of-subsidy deficits will be retained for subsequent liquidation or disbandment. The others will be studied with a view to possible privatization depending on the interest aroused among Senegalese private investors.

The second step will be to tackle the enterprises that have a definite public-service role but one that is restricted to a small user population. A more detailed study will thus be necessary in order to determine whether this public-service role justifies the cost to the community or whether its role could not be performed by the private sector with the various incentive and regulatory mechanisms needed.

In the short term, an initial group of enterprises where withdrawal

seems to be straightforward and urgent will be studied without waiting for the precise strategy to be formulated. A plan of action names the enterprises affected and the priority work to be done during 1985/86.

II. REHABILITATION OF PUBLIC ENTERPRISES

1. Object

There are certain areas of activity which cannot escape the direct involvement of the State or at least its supervision, either because the State alone can guarantee the interests of the general public, or because the State alone controls the factors of development or, lastly, because the State alone can take the risk of investing in the strategic sectors identified by the Economic and Social Development Plan.

The object of rehabilitating those enterprises remaining in the parapublic sector is to increase the volume and quality of the services provided to the community by cutting their unit cost to the State. The actions to be undertaken by the Government to achieve this goal will focus on four main areas:

- improvement of the parapublic sector information and monitoring system;
- contractual formalization of State-public enterprise relations (contrat-plan and rehabilitation plan);
- improved internal management of the enterprises through the incorporation of efficiency standards;
- simplification of State control and strengthening of State supervision.

These actions will be adapted to the specific context of each entity. Efforts will be made, however, to achieve the homogeneous and

systematic rationalization of State-public enterprise relations for each of the three following groups:

- State-controlled enterprises in the commercial sector, in which management autonomy will be strengthened on the basis of a contrat-plan providing for a progressive reduction of State assistance. Preference will be given to a posteriori control.

- State-controlled enterprises in the mixed-capital sector that partially play a public-service role, for which State assistance will be strictly limited to the accomplishment of that role and made subject to implementation of a rehabilitation plan.

- Quasi-administrations for which a State appropriation is justified by their exclusively public or social role and which have administrative autonomy.

The Government has set itself two goals for 1988/89 in relation to 1984/85: to halve the total amount of direct subsidies granted to the parapublic sector and to carry out 20 priority rehabilitation operations (contrats-plan, rehabilitation plans).

2. Strategy

The aforementioned goals will call for seeking ways to cut the cost of public services before planning to expand the field. There will be a ban on the setting up of any new public enterprise, except through the redeployment of existing resources. Investments will focus primarily on the rehabilitation and badly needed modernization of existing infrastructure, while not neglecting profitable expansion projects. The public-service role of each enterprise will be identified and defined, subsidies being kept in line with the importance and volume of this role. Thus, starting in 1985/86, enterprises desiring subsidies must discharge a public-service function or

meet any other special requirement imposed by the State and established by the mutual agreement of the parties.

A management information chart will be prepared to monitor the overall impact of the parapublic sector on the public finances and priority economic indicators, such as the balance of payments and the domestic and external debt. Stricter financial supervision will be applied to ensure better control over operating costs and particularly the wage bill, changes in which will be closely monitored until 1988/89.

The general strategy regarding the form of enterprise management will be to promote autonomy and make the management of the enterprises accountable in order to increase managerial and organizational efficiency. The State will, in particular, refrain from interfering in the day-to-day management of the enterprises. By resuming its primary role as the planner and regulator of economic activity, the State should become more of an arbitrator than an actor and concentrate its efforts on formulating the medium- and long-term sectoral policies that form the framework for the activities of the enterprises. This movement toward autonomy calls for a demonstration on the part of the enterprises of their capacity to establish efficient management systems (accounting, management information charts, forward management, trade policy etc.).

As in the case of withdrawal, the strategy for medium-term rehabilitation hinges on the evaluation of the State's portfolio, sectoral diagnostic studies, and possible support measures aimed at accelerating the decision-making process regarding enterprise rehabilitation, simplifying the supervision of State agencies and bringing about lasting improvements in management systems and in the capacities of management personnel.

In order to accomplish the two goals by 1988/89 the enterprises will

be tackled initially in order of priority, based on the size of their net-of-subsidy deficit. Later on, in the case of profitable enterprises, the selection of rehabilitation priorities will be established in terms of the indirect economic aid granted by the State and the conditions for improvement in their self-financing margins.

Every contrat-plan must include a precise definition of the purposes of the enterprise, an evaluation of costs and the corresponding multi-year performance targets, a description of the form of State supervision and of the enterprise's degree of autonomy, the amount of resources contributed by the State, details of incentives to encourage good management (bonuses and penalties), and measures needed to help achieve financial recovery and the absorption of arrears owed to the banking sector and private suppliers.

The contrat-plan system will be supplemented by a less severe system of evaluating the performance of enterprises which, given their large number, cannot all sign contrats-plan with the State.

The State's economic involvement has, in certain areas, reached its limit in terms of effectiveness. New forms of economic regulations should be introduced in order to release the energies that are sometimes repressed by an administration that is ill-prepared for innovation, management and risks.

This does not mean that Senegal renounced its political options. Moreover, ideological debate reaches its limit when it is realized that economic democracy does not mean that the Government has to be involved in every single aspect of production and distribution. Economic democracy implies that the State fully exercises its role as arbitrator and general organizer of economic activity; it also implies that the State grants all agents of change the opportunity to take the initiative and to assume full responsibility for that initiative.

The new State policy for the parapublic sector should help reactivate a significant development potential by questioning certain supervisory or intervention structures, eliminating quasi-monopoly rents in order to open up activities to new agents, and rationalizing procedures for granting subsidies, tax exemptions, customs privileges and government contracts on the basis of the contribution to development (value added, job creation).

The partial withdrawal of the State in order to achieve more efficient management of national resources is thus a prerequisite for economic recovery. It is insufficient, however, unless the national economic agents are ready to take over. It is their responsibility to make a more thorough-going commitment to improve the competitiveness of the enterprises through investment, innovation and the search for new markets.

As the Head of State himself said in December 1984: "It is not at all paradoxical today to say that there is a need for both more and less State involvement -- more, in terms of giving the State a stronger role as arbitrator and regulator in the organization of social and economic affairs, and less, in terms of allowing all the agents of change to take the initiative and assume full responsibility for that initiative."

Office of the President
of the Philippines

EXECUTIVE ORDER NO. _____

RATIONALIZING THE GOVERNMENT CORPORATE SECTOR

RECALLING that the re-organization of the government is mandated expressly in Article II, Section 1(a), and Article III of the Freedom Constitution;

HAVING IN MIND that pursuant to Executive Order No. 5 (1986), there is a need to effect the necessary and proper changes in the organizational and functional structures of the national and local governments, agencies and instrumentalities, including government-owned or controlled corporations and their subsidiaries, in order to promote economy, efficiency and effectiveness in the delivery of public services;

TAKING NOTE that in the past, there was an excessive proliferation of government-owned and controlled corporations, without clear delineation of the grounds for government activities in corporate form and without adequate supervision and control;

CONSIDERING that consequently, there was progressive discouragement of private initiative on account of undue government competition and because of the lack of oversight mechanisms, the financial performance and productivity of government corporations, in the aggregate, were below desirable levels;

NOW, THEREFORE, I, CORAZON C. AQUINO, President of the Philippines, by virtue of the powers vested in me by the sovereign will of the Filipino people and the Freedom Constitution, do hereby order:

SECTION 1. Title. This Executive Order shall otherwise be known as the Reorganization Act of the Government Corporate Sector.

SEC. 2. Reorganization. The Government Corporate Sector, consisting of government corporations is hereby reorganized, structurally and functionally, in accordance with the provisions of this Executive Order.

SEC. 3. Declaration of Policy. In order to encourage a general improvement in the operations, particularly financial performance and productivity of government corporations, it is imperative to bring about a rationalization of this sector so as to (a) provide criteria for defining and classifying government corporations and for allowable government activities in corporate form; (b) provide general directions for the disposition of certain government corporations presently existing; and (c) set down policy measures to improve the organizational and functional capabilities of government corporations and provide for their ministerial and inter-ministerial supervision and control.

SEC. 4. Government Owned or Controlled Corporation. A government-owned or controlled corporation (GOCC) is a corporation which is created by special law or incorporated and organized under the Corporation Code and in which the government, directly or indirectly, has ownership of the majority of the capital or has voting control; provided that any subsidiary of a GOCC is also a GOCC; provided, further, that an acquired asset corporation, as defined in the following Section 5, shall not be considered as a GOCC;

Provided, further, that a corporation created by special law which is explicitly intended under that law for ultimate transfer to private ownership under certain specified conditions shall be considered a GOCC, until it is transferred to private ownership and control;

Provided, further, that a corporation that is authorized to be established by special law, but which is still required under that law to register with the Securities and Exchange Commission in order to acquire a juridical personality, shall not on the basis of the special law alone be considered a GOCC; and

Provided, finally, that the term, government corporation, as used elsewhere in this Executive Order is intended to be synonymous with GOCC.

SEC. 5. Acquired Asset Corporation. An acquired asset corporation is a corporation organized under the Corporation Code (1) under private ownership, the voting or outstanding shares of

which (i) were conveyed to the government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) were duly acquired by the government through sequestration proceedings; or (2) as a subsidiary corporation of a government corporation organized exclusively to own and manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or by enunciated policy of the government is required to be disposed of to private ownership within a specified period of time.

SEC. 6. Coverage. The provisions of this Executive Order shall govern GOCCs only; provided, however, that acquired asset corporations, while generally exempt therefrom, shall be subject to reportorial requirements and Sections 10 and 11, relevant provisions of Section 15, and Section 17 hereof; provided, further, that chartered universities, colleges, schools, and municipal corporations are exempted therefrom and shall be the subject of a separate policy enunciation.

Nothing in this Executive Order shall inhibit the Commission on Audit from auditing acquired asset corporations.

SEC. 7. Statement of General Policy on the Roles of the Government and Private Sector. The State recognizes the indispensable role of the private sector, encourages private enterprises, and provides incentives to needed investments. Accordingly, the private sector shall have the primary role in undertaking desirable economic activities, especially in the production of goods and services. It is also the policy of the State to avoid competition with private enterprise in economic activities. In this regard, the usual role of government is twofold: (a) to provide the regulatory framework within which the private sector participants in socio-economic activities are to operate; and (b) to provide such support as may be necessary to encourage the private sector to produce vital goods and services efficiently.

SEC. 8. Criteria for Government Participation. The Government may participate in areas of activity primarily reserved for the private sector, if either of the following circumstances (a) or (b) exists:

(a) When the goods or services to be provided are vital to society but the private sector is unwilling or unable to provide the same or expand its capacity to meet market demand, such as, or similar to, the following:

(1) Pioneer undertakings usually involving large and physically indivisible assets requiring massive capital and/or advanced technology and generally characterized by high risks and/or uncertain or uncompetitive returns.

(2) Services which are essential for socio-economic development and/or provide basic necessities, which may or may not be profitable or the returns therefrom may be principally social rather than financial, such as irrigation projects, operation of small water supply systems or resettlement projects.

(3) Projects involving substantial external costs, the consideration of which renders the activity unprofitable or uncompetitive, such as chemical industries where the need to install emission/effluent control mechanisms may be substantial.

(4) "Pump-priming" activities, where due to the urgency of producing the goods or services required, the investment and decision-making process of the private sector cannot be awaited.

(b) When intervention in free market operations is justified by the need to create a bias in favor of disadvantaged sectors of society, such as:

(1) When monopoly or cartelized operations exist; or

(2) When price supports for producers or price ceilings for consumers are temporarily required.

In these cases where government participative activity is deemed necessary, the overriding consideration therefor should be to accelerate socio-economic development. Practicable measures should be adopted to encourage the private sector to assume the activity being undertaken by the government. Once the circumstances which have warranted government participation or intervention no longer exist, government should withdraw from these areas of activity.

SEC. 9. Criteria for the Use of the Corporate Form. In instances when government participation or intervention is justified, the use of the corporation form is permissible if

The conversion into equity of loans previously extended by a government corporation to a privately owned corporation organized under the Corporation Code, which conversion will result in majority ownership or control by said government corporation in said debtor corporation, shall likewise require the prior approval by the GCMCC.

SEC. 11. Procedural Requirements. The GCMCC shall, in the rules and regulations which it shall formulate to implement this Executive Order, provide, among others:

(a) Strict prohibition against the creation, acquisition or proliferation of corporations in violation of the foregoing Section 10; and

(b) Strict and mandatory procedures and criteria in determining the appropriate levels and kinds of government equity investments in government corporations, limiting the same to what is reasonably needed by said corporations.

SEC. 12. Provision of Adequate Operational Flexibility. Government corporations shall be provided with adequate operational flexibility in order to function properly and efficiently, especially under conditions of market competition. Such flexibility shall nevertheless be consistent with the requirements of public accountability.

Operational flexibility for this purpose shall mean the ability of the corporation to act promptly on its own on individual transactions or matters, without need for further prior clearance from supervisory authority external to the corporation, provided such actions are within the purview of their respective charters, explicit general policies, programs, and guidelines including budgetary constraints provided by external supervising authorities.

SEC. 13. Differential Treatment. To implement the concept of greater flexibility, government corporations in general shall be accorded differential treatment which is more consistent with corporate organizational practices as distinguished from bureaus or regular line agencies of government, with respect to the exercise by the various service-wide agencies, such as the Office of Budget and Management, Civil Service Commission and the Commission on Audit, of their respective powers and functions and also with respect to the procurement needs of government corporations. The establishment of such differential treatment

either of the following conditions exists: (a) when the nature of the goods or services to be produced or the market environment under which the activities are to be carried out dictates a need for operations to be undertaken under procedures less restrictive than those prescribed standard government regulations applicable to bureaus and other regular line agencies of government; or (b) when it is the intent to limit the liability of government to its direct equity exposure in the activity or operation.

As a general rule, the activity undertaken in corporate form can reasonably be expected to be financially self-sustaining, that is, the activity must be able to support its operations from internally generated funds without any special privilege or continuing budgetary assistance from the government.

The corporate form shall be avoided if its financial viability depends wholly or substantially upon the automatic receipt of income in the form of involuntary charges imposed by government in favor of the corporation, for which no corresponding service is rendered directly to the payor of the charges.

SEC. 10. Powers of the Government Corporate Monitoring and Coordinating Committee (GCMCC) on the Creation or Acquisition of Government Corporations. Restraint shall be exercised in the creation or acquisition of corporations by government. Such creation or acquisition shall not be undertaken without prior approval from the Government Corporate Monitoring and Coordinating Committee (GCMCC). All proposals for the acquisition or creation of government corporations shall, in each case, be subject to prior review by GCMCC in accordance with appropriate criteria established for the purpose by GCMCC before they are submitted to the President. The GCMCC shall advise the President regarding proposed government corporations to be created by the legislature. All proposals to create or acquire a government corporation, including proposals to establish subsidiary corporations, shall be submitted to the President for decision.

The Securities and Exchange Commission shall likewise ensure compliance with this Executive Order and shall require the submission of the written approval as prescribed in this Section before giving due course to the application for registration of a corporation under the Corporation Code.

shall be guided by comparable and appropriate industry practices and standards.

For purposes of this provision, government corporations may in addition be classified into functional or sectoral groupings; however, any such functional or sectoral classification shall be agreed upon and consistently applied by the service-wide agencies involved. Any such classification shall consider, among others: (1) existing private shareholdings in the government corporation, (2) any decision by government or mandatory provision in its enabling act or other applicable law for the ultimate conversion of the specific government corporation into a private corporation, and (3) sustained satisfactory financial and economic performance indicative of continuing financial viability. Such agreed classifications may be used as a basis for further differentials in treatment among the different categories of government corporations.

The Office of Budget and Management and the Commission on Audit, as the case may be, shall observe the applicable industry standards in the promulgation of appropriate accounting and auditing regulations, and towards this end shall ensure that government corporations establish and adopt accounting and auditing systems and standards which are consistent with the appropriate and applicable guidelines of the Commission on Audit, and which in any case shall be as uniform as possible and shall conform with law and with generally accepted accounting principles and sound auditing practices. The policy of the withdrawal of resident auditors shall be fully implemented; provided, that adequate funding support shall be provided the Commission on Audit for the exercise of its audit function over government corporations, which support shall come from reasonable audit service charges levied by it on the individual government corporations, and supplemented as necessary from budgetary appropriations.

The audit of government corporations by the Commission on Audit shall not preclude government corporations from engaging the services of private auditing firms, if necessary for specified special purposes, as allowed by procedures to be established by the GCMCC in consultation with the Commission on Audit; provided, however, that even if the services of private auditors are availed of, the audit report of the Commission on Audit shall serve as the report for purposes of compliance with audit requirements as required of government corporations under applicable laws.

The Civil Service Commission shall be guided by comparable industry practices and shall develop appropriate standards in its personnel policies pertaining to selection, movement, training, discipline and related matters. The Corporate Affairs Office of the Civil Service Commission or the Office of Compensation and Position Classification, as the case may be, shall formulate compensation and position classification policies which shall endeavor to make the corporate salary scales competitive with those for similarly situated industry personnel.

The National Economic and Development Authority shall likewise formulate policies providing for differential treatment for infrastructure contracts and major procurement of supplies, materials, equipment and the like by government corporations, such policies to be made in the context of comparable and appropriate industry practices and standards.

In performing their respective assignments herein set forth, which must be completed within six (6) months from the effectivity of this Executive Order, the Civil Service Commission, Commission on Audit, and Office of Budget and Management, shall, subject to constitutional limitations, coordinate with the GCMCC, preferably through the medium of interagency committees.

Nothing in this Section and in Section 14 hereinbelow shall be construed as in any way diminishing or limiting the responsibilities and accountabilities of government corporations and their respective officials.

SEC. 14. Government Corporations with Significant Minority Private Equity. Government corporations wherein more than thirty-three and one-third (33-1/3) percent of the outstanding voting capital stock is privately owned shall, as a general rule, be accorded the greatest possible flexibility in the application of the regulations of the various service-wide agencies.

Such corporations may engage the services of private external auditors, and the Commission on Audit may, at its option and with respect to its financial audit function, review the private external audit or conduct its own parallel audit.

The personnel of such corporations shall not be subject to the position classification and compensation rules and regulations.

SEC. 15. Policy Measures. The government shall observe the following policy measures and limitations, with respect to government corporations:

(a) Prohibition of regulatory authority. Government corporations shall not be vested with quasi-judicial or adjudicatory authority nor undertake regulatory functions, unless the performance of regulatory functions is absolutely necessary in the pursuit of the objectives of the corporation. In no case may a government corporation engaged in an activity in competition with private sector corporations possess regulatory authority over such competing corporations.

(b) Avoidance of special privileges and benefits. Government corporations, especially those in areas which compete directly with private sector counterparts, shall not as a general rule be entitled to undue competitive advantages and benefits, including automatic government guarantees for debts incurred, special privileges such as partial or full exemption from the payment of taxes, duties, imposts, and other charges, and automatic sources of income for which no direct service or benefits are rendered to the payors or the sources of income, except when the government corporation is organized solely for cultural, educational, civic or scientific purposes.

This limitation shall, however, be without prejudice to the government providing financial assistance to government corporations in the form of equity contributions, or loans preferably under terms not more favorable than those obtaining in the market. Provided that where a government corporation is required by the government to undertake any activity involving the provision of a subsidy by the government, the cost of such activity shall be borne entirely by the government and shall not impair the financial viability of the corporation, and the work shall be undertaken on the basis of a separate contract between the government and the government corporation for the purpose.

In like manner, government corporations shall not be subject to undue constraints or limitations not imposed on their private counterparts in their respective areas of operation.

(c) Standard features common to all government corporations. Those organizational, managerial and financial aspects common to all government corporations shall be standardized to the fullest extent possible, covering matters such as the general powers of the corporation, the composition, powers and functions of the board, the powers and functions of the chairman of the board and the chief executive officer, including their relationships, the basic organizational structure, the formulation of multi-year corporate plans consistent with national and sectoral development plans, borrowing powers and limitations, standard accounting systems and other related matters. Such standardization shall be accomplished by the issuance of appropriate executive orders, rules, regulations and procedures or, whenever pertinent, by the corporations affected and in accordance with law.

(d) Limited liabilities. Except as may be expressly and specifically assumed by the government under or in respect of loan agreements, the liability of the government for the obligations of a government corporation, and the liability of a government corporation for the obligations of its subsidiaries, shall be limited to the extent of their respective equity participation. Notwithstanding any other law to the contrary, no law or charter shall provide for any automatic assumption by the government of the obligations of government corporations. To this extent, the respective charters of the government corporations concerned are hereby modified.

(e) Management of government corporations. The management of a government corporation shall be carried out by its board of directors and by its chief executive officer.

The chief executive officer shall be responsible for the implementation of policies and programs approved by the board of directors and shall appoint and have supervision and control over the personnel of the corporation, except that his appointment of principal officers shall be with the prior approval of the board of directors.

The board of directors shall provide policy and program direction as in, but not limited to, the corporation's budget, organizational structure and staffing pattern, financial operations, production, sales and other corporate

targets, and distribution of profit. The same board shall also serve as the approving authority for the operational policies and programs prepared by the chief executive officer.

The ministry to which a corporation is attached will be represented in the board of directors of the corporation by an official of the ministry with the rank of deputy minister or lower in an ex-officio capacity, who cannot be the chairman or the chief executive of the corporation. Where the nature of principal corporate operations shall be in sectoral areas of responsibility of other ministries, the boards of such corporations shall include representatives with ranks of deputy minister or lower, one for each of said ministries, who shall be ex-officio members of said boards except in the case of the Central Bank of the Philippines, where an ex-officio member of the board can be a person with a rank of minister.

As a general rule, the minister cannot be a member of the board of directors or the chief executive officer of a government corporation. None of the ministry representatives can be the chairman of the board or the chief executive officer of a government corporation.

The total number of ex-officio members in the board of directors should comprise less than majority of the board membership.

No person can be a chief executive officer of more than one government corporation, except in the case of a subsidiary of a government corporation of which he is already the chief executive officer. Neither can a person serve in an ex-officio capacity in the board of directors of a government corporation, except as provided above.

No person may serve as a member of the board of directors of more than four (4) government corporations, except as may be approved by the GCMCC.

The minister shall see to the reorganization of the board of directors of existing government corporations

attached to his ministry in conformity with these provisions within one hundred eighty (180) days after the approval of this Executive Order.

(f) Ministerial supervision of attached government corporations. When government corporations are attached to a ministry, the latter shall ipso facto be responsible for ensuring that the policies and programs of such corporations, such as their budgets, financial operations, production, sales and other corporate targets, and dispositions of profits, are consistent with sectoral policies and programs, the supervision to be undertaken through appropriate coordination and monitoring within the sector.

The minister's authorities with respect to a government corporation attached to his ministry shall include the following:

(1) Recommending the members of the board, including the Chairman, for appointment by the President;

(2) Appointing the full-time Chief Executive Officer of the Corporation from among the members of the board.

(3) Setting overall objectives of the corporation by the issuance of general guidelines to the board of directors in accordance with the initial paragraph of the herein Subsection (f);

(4) Requiring reports and data from the board of directors or the chief executive officer regarding the corporation's performance;

(5) Approving the annual report, budget proposals, and modifications of the articles of incorporation or by-laws;

(6) Exercising such rights as are normally enjoyed by stockholders or members of a corporation, except that visitorial power is limited to financial transactions of the corporation.

However, the minister cannot intervene in any manner in any particular action taken by the board of directors, the chief executive officer or other subordinate personnel.

(g) Inter-ministerial supervision of government corporations. The role of inter-ministerial supervision of

government corporations shall be performed by the Government Corporate Monitoring and Coordinating Committee (GCMCC). GCMCC shall be concerned with overall monitoring and coordination of the government corporations involving inter-ministerial, sectoral and inter-sectoral issues, and is not meant to replace the basic responsibilities of ministerial supervision.

Adequate procedures shall be adopted for the evaluation, control and monitoring of the various forms of the national government's financial support to government corporations.

(h) Performance criteria and evaluation. Operationally meaningful financial and economic performance criteria shall be formulated and agreed upon by the government corporations, the respective ministries to which they are attached, and such other entities which may exercise overall supervision and/or coordination over government corporations, in order that corporate management may be fully aware of the standards and targets by which their operations will be assessed.

Such performance criteria shall include both those which are applicable to government corporations in general and those which are specific to each corporation or group of similar corporations and shall be translated into appropriate quantitative multi-year performance targets to be aimed at by each government corporation.

SEC. 16. Procedure for Disposition. The Presidential Commission on Government Reorganization shall, pursuant to its mandate, recommend on or before January 25, 1987 the future disposition of government-owned or controlled corporations presently existing, such as but not limited to:

(a) Retention of the corporation, which may involve changes in ministry attachment, purposes, functions, etc.;

(b) Consolidation or merger with another GOCC;

(c) Regularization, that is, abolition of the corporation and transfer of its powers and functions, personnel, assets and liabilities to a regular line agency of government;

(d) Conversion, that is, have the government corporation registered under the Corporation Code and thus be treated as a private corporation;

(e) Dissolution of the government corporation, winding up of its affairs and liquidation of its assets and liabilities; and

(f) Divestment of government ownership, either totally or partially, in favor of the private sector.

The President is hereby granted the continuing authority, in addition to what is provided in the law creating the Committee on Privatizaion, to change in any manner the respective charters of existing government corporations within five (5) years after the approval of this Executive Order, in order to implement the purposes of the herein Section. The lay-off of personnel, as a consequence of such changes, may likewise be effected within the same period of five (5) years, as an exception to Executive Order No. 17 (1986).

The Presidential Commission on Government Reorganization, or such other agency as may be designated by the President, shall see to it that the dispositive actions approved by the appropriate government mechanism with respect to existing government corporations and pursuant to the preceding paragraph are faithfully implemented.

SEC. 17. Dissolution of Acquired Asset Corporations. Any acquired asset corporation, which has not been disposed of to the private sector within five (5) years from the date of its acquisition, shall be dissolved upon the lapse of such period. The Chief Executive Officer of such corporation shall, within sixty (60) days from the lapse of such period, submit to the proper authorities the legal instruments necessary for its dissolution in accordance with law, unless a specific exemption or extension is granted by the GCMCC.

The Chief Executive Officer who, by fault or negligence, fails to submit such instruments as herein prescribed shall be subject to civil or criminal sanctions, under appropriate laws, together with such persons who partake in the same fault or negligence.

SEC. 18. Observance and Implementation of Policy Changes. Unless otherwise provided elsewhere in this Executive Order, all

measures and policies provided for herein and in other implementing instruments enacted in due time pursuant to this Executive Order shall be fully complied with by all government corporations within a period of one (1) year from the effectivity of this Executive Order.

Any new government corporation created, whether by special law or through the Corporate Code, shall adhere to the principles and policies enunciated herein.

However, collective bargaining agreements existing at the time of the issuance of this Executive Order in those corporations previously deemed excluded from the coverage of the definition of government corporations, including renewals made during the status quo, shall continue to be in full force and effect until their expiration.

SEC. 19. Non-diminution of Authority of President. Unless otherwise authorized by the President, nothing in this Executive Order shall be construed as in any way diminishing, transferring or withdrawing any of the existing powers of the President with respect to the government corporate sector as a whole or the individual government corporations.

SEC. 20. Exercise of Police Power. The reorganization of the government corporate sector prescribed in this Executive Order is hereby intended and deemed to be an exercise of police power of the State. However, if any reorganizational change herein prescribed would create the danger of contravening some contractual stipulation as to prejudice thereby a creditor of a government corporation, such change shall have no legal effect whatsoever until such danger has been resolved; provided, however, that nothing in this provision is intended to limit the prerogative of the State to exercise, through the President, its police power to the fullest extent, if, in her sound judgement, such kind of exercise is warranted by the circumstances them prevailing.

SEC. 21. Separability Clause. The provisions of this Executive Order are declared to be separable and if any provision or the application thereof is held invalid or unconstitutional, the validity of other provisions shall not be affected.

SEC. 22. Repealing Clause. Presidential Decree No. 2029 dated February 4, 1986 and Letter of Instruction No. 1520 of even date are hereby repealed *in toto*. All other laws, decrees,

orders, proclamations, corporate charters, rules and regulations and parts thereof, which are inconsistent with any of the provisions of this Executive Order are hereby repealed or modified accordingly.

SEC. 23. Effectivity Clause. This Executive Order shall take effect immediately upon its approval.

APPROVED in the City of Manila, Philippines, this _____ day of _____, in the year of Our Lord, Nineteen Hundred and Eighty-_____.

CORAZON C. AQUINO
President of the Philippines

By the President:

JOKER P. ARROYO
Executive Secretary