PARASTATAL SECTOR REFORM AND PRIVATISATION IN TANZANIA

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Introduction

A dramatic change has taken place in Tanzania since the mid-1980s. It is observed that the cumulative process of the country's reform measures has resulted in an economy that now largely relies on market signals for pricing and allocative decisions. The reform process started gradually in 1985 by introducing several measures in the trade, pricing and exchange rate. The introduction of these measures has meant a departure from the centralised system of controls, including its administrative allocation machinery. While it is recognised that the shift in the policy of economic management has made a positive contribution to the turn-around in economic performance over the last five years in Tanzania, the pace of change cannot be sustained without taking positive action in redressing the deteriorated physical and social infrastructure and improving institutional performance in the country as a whole. Massive development in the economy cannot take place without putting emphasis on capacity building in all institutions involved in the process of change with growth.

It is evidenced by the prevailing situation in Tanzania that recognition has been given by the Government and the Party to the importance of carrying out all the reforms that have been recommended in the Economic and Structural Adjustment Programme. Implementation of the necessary structural and institutional transformation has begun in Tanzania and it covers areas such as infrastructure, particularly the rehabilitation of the trunk roads, the financial sector and agricultural marketing. Initial steps have been taken in other areas, such as the social sectors and public sector management. The focus of the development strategy in the coming years is to create an efficient, well functioning and rapidly growing economy.

Current Status of the Reform Programme

In a government pronouncement relating to the parastatal reform in Tanzania, the Minister of Finance summarised the impending reforms to include the following:
(a) the phasing out of government subsidies;
(b) complete and partial privatisation of public sector holdings; and
(c) liquidation of unprofitable entities.

The basic objectives of the envisaged parastatal reform are to:

- improve both the operational efficiency of enterprises that are currently in the
  parastatal sector and their contributions to the national economy;
- reduce the burden of loss-making parastatal enterprises on the government budget;
- expand the role of the private sector in the economy, permitting the government to
  concentrate public resources on its role as provider of basic services, such as
  health, education, and social and economic infrastructure; and
- increase and encourage a wider participation of the people in the running and
  management of the economy.

The foregoing objectives are all intended to encourage the private sector to play a major
role in the future development of the country through promotion or attraction of new
investments from within and without and also revitalising management of the parastatal
sector.

The key emphasis in the Minister's policy statement in implementing the reform of the
parastatal sector is attainment of improved operational efficiency in the particular
sectors and the economy as a whole; reduction of dependence on Treasury rescue-funding
and expansion of the private sector role in the national economy so as to allow
more time and other resources to concentrate on providing an enabling business
environment. It is discernible from the foregoing policy statement that a choice has
been made for trade liberalisation and departure from the centralised system of
administrative controls as a first step towards privatisation and commercialisation of the
public sector.

**Gradual or Swift**

The question in Tanzania that has to be tackled in the immediate future is how to
privatise rather than what to privatise. Another related issue is the speed at which such
privatisation should operate. The determination of these two issues is highly influenced
by the immediate political and economic history of Tanzania. There will be some
difficult decisions to be made. But in order to provide an environment that would be
conducive to change or that would improve efficiency of the productive sector as a whole, through its economic recovery programme, the Government continues to implement its reforms in the areas of foreign exchange, regulation and revision of business laws.

These reforms are necessary in order to help both private and parastatal enterprises to operate profitably and in the national interest. It is recognised that the Government's intentions in taking up these reform measures are geared to restoring operational efficiency and attracting capital resources from the private sector.

**Work Programme on Parastatal Reform and Associated Issues**

Measures to clarify and speed up the reform programme in Tanzania, including both privatisation measures and measures to improve productivity of retained public enterprises, will have to be formulated immediately after the establishment of the Privatisation Commission and its Secretariat. It is envisaged that substantial technical assistance will be required to facilitate the reform programme. Other action programmes will include measures to strengthen the business environment.

In support of the reform programme to which the Government of Tanzania is committed, a series of industrial sub-sector studies – metals, agro-industry, wood, chemicals, leather, textiles and oils – are in the process of being finalised with assistance from the World Bank. In order to ensure a rational prioritisation of parastatal enterprises, the government policy statement tentatively gave some broad general guidelines with respect to the classification of parastatal enterprises and sequencing of privatisation. The following classifications will be applied, inter alia:

(i) Social Services;

(ii) Public Utilities;

(iii) Commercial Enterprises.

Social service institutions are defined as those that do not generate revenue from sales of goods or services. These will be absorbed into government administration and financed directly through the national budget, while being subjected to the programme to improve cost-effectiveness.

Public utilities which generate revenue will, subject to review, remain mainly within the state sector, but will be subject to cost-cutting, efficiency improvement and performance monitoring programmes. Such enterprises will be expected to earn profits, and to this end the Government will adopt policies of liberalising prices and charges to consumers.
Private sector provision of part of these services will be encouraged in order to improve efficiency and promote new technology.

Commercial enterprises, which are expected to operate at a profit, will be available for foreign and local participation, including privatisation by means of joint venture, full or partial sales of shares, leasing and management contracts. Those commercial enterprises which cannot be operated profitably within the state sector, and cannot find co-operating private resources, will be closed and liquidated. The disposition of each enterprise would be decided on a case-by-case basis, according to specific opportunities.

Ownership Structure of Privatised Enterprises

The Government is aware that the divestment of parastatals involves issues of foreign and indigenous ownership. Hence, the need to preserve a degree of indigenous ownership in privatised public enterprises is strongly felt by the Government. It is the Government's responsibility to build up acceptability of the programme among the people and politicians of Tanzania. In general, the need to attract capital, technology and stable and responsible management, will undoubtedly necessitate majority shareholdings. The Government will, in the case of each enterprise, apply principles to determine the minimum proportion of the equity shares to be retained on behalf of the people of the country and the proportion to be divested to local or foreign investors. The shares retained will be held initially within financial institutions through vehicles such as investment trusts. In due course, as the capital market develops, part or all of the shares held by the state will be sold, either to the general public or to the workers and management of enterprises, either for cash or through credit plans.

It is recognised from the outset that the sale of enterprise equity involves complicated issues of valuation, to ensure that the state receives a fair price for the assets or shares being sold. It is the commitment of the Government of Tanzania to ensure that valuation of assets will be carried out professionally. With the establishment of the Privatisation Commission and the Secretariat, steps to guide the sale of parastatal assets will be set out in order to ensure transparency and fair price. The initial exercise of the Secretariat and its technical committees will involve complicated issues of asset valuation, preparation of enterprise profiles and bidding documents, invitation of bids, pre-selection of investors, valuation of bids, negotiation with prospective investors, etc.

Public Enterprise Debt Settlement

Many parastatal enterprises in Tanzania have incurred significant debts which they have not been able to service and which are guaranteed by the Government. A general solution is required to rationalise these debts and regularise enterprise balance sheets so
as to facilitate privatisation/joint ventures, and to restore solvency and bankability of enterprises. It is realised that this problem is currently concentrated in a relatively small number of public enterprises - about fifteen; the present value of these enterprises being thus reduced by the amount of past debt which was contracted and not repaid. Negotiations with prospective buyers in respect of the public enterprises which are heavily indebted will be rather difficult.

The general solution would involve:

· transfer of the devaluation component of outstanding debt from the public enterprise to the Government;

· consolidation of overdraft arrears into medium-term loans;

· conversion of debt into government or bank equity in appropriate cases; and

· elimination of inter-enterprise cross-debts. At the same time revaluation of assets should be carried out.

Following this, the balance sheets of the public enterprises would become more transparent and capital restructuring would be facilitated. This general approach, however, may have to be modified in order to avoid a "bail out" to indebted public enterprises which have not yet secured restructuring deals because such a bail out might delay restructuring or privatisation. It is also logical to de-link internal from external PE debt liabilities. Settlement of external debt would generally be the responsibility of the Government.

The method of valuation of PEs is important because it affects:

· the receipts from asset and share sales; and

· the public perception that sales have been administered fairly (transparently).

A problem that will have to be addressed in Tanzania during the transitional period of reform is that of the PEs that are currently financially unprofitable but which are regarded as potentially viable. A mechanism has been developed in Tanzania of transferring unviable companies to the Loan and Advances Realisation Trust (LART). This group of enterprises would consist of units which have ceased to operate. But there will be a category of PEs which are potentially capable of becoming viable after restructuring. An interim financing provision would be needed for this category of PEs.

Labour Redundancy
Parastatal restructuring and privatisation will cause some labour redundancy. The transitional period will be difficult for those rendered unemployed and for their families. The Government of Tanzania is aware of this consequence. A solution to the problem will involve a review of a number of measures, including severance payments; grant funding for setting up small businesses; retraining programmes, especially for business start-up skills and job placement services; possibility of giving out-going workers shares in privatised enterprises; and external donor assistance could be forthcoming to assist the Government in setting up a number of such schemes and complementing other government efforts in resettling laid off workers.

In order to implement the complex process of parastatals restructuring and privatisation, the Government has appointed a Presidential Parastatal Sector Reform Commission (PPSRC) whose major terms of reference will be to:

· develop operating policies and procedures on how to implement the reforms decided by government;

· review specific policies and legislation pertaining to the parastatal sector;

· Prepare an up-to-date list of all operating parastatals;

· review, and where necessary undertake, detailed analysis of individual parastatals so as to determine priority/sensitivity and viability and ultimately the price of each share;

· undertake financial analysis of those parastatals to be amalgamated or restructured;

· to give recommendations as to what action should be taken on each parastatal after consultation with all relevant authorities; and to oversee implementation of agreed action.

The Commission will submit its recommendations on action to be taken directly to the Cabinet, or a committee of the Cabinet, for final decision without going through the established bureaucratic process.

In order to give effect to the restructuring and the proposed reforms of the public sector, the Government is taking measures to provide for a legal framework for the implementation of these reforms, namely:

· introduction of a new bill or review of the Public Corporation Act, 1969 to ensure the proposed reforms are implemented accordingly and to set out new provisions for the establishment of public corporations on commercial principles;
enable certain institutions, including District Development Corporations, non-commercial services institutions, sports and culture institutions and institutions of learning to cease to be public corporations;

amendment of the Treasury Registrar Ordinance;

enact new law to provide for the establishment of capital market(s); and

review of the existing companies ordinance (Cap. 212) to accommodate the proposed reforms.

Finally, the implementation of the Parastatal Sector Reform will be undertaken in a co-ordinated manner and in the context of all other programmes which are now being implemented under ESAP. The manner and pace of the reform process of the parastatal sector will be expedited as far as is technically and administratively possible, consistent with the country's overall development policy.