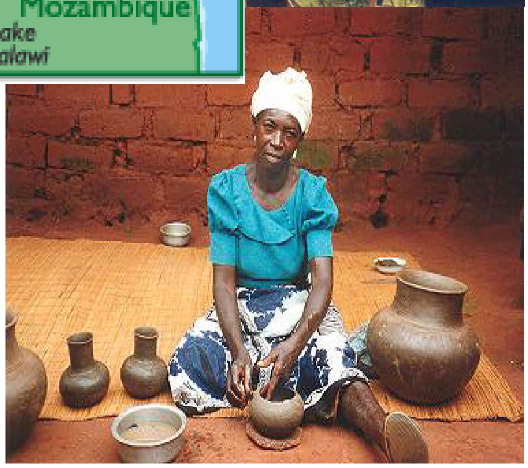
Tanzania's Experience with Privatisation Policies



A Case Study

AFRODAD

African Forum and Network on Debt and Development

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About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

1 To enhance efficient and effective management and use of resources by African governments;

2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.

3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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Preface

AFRODAD has always believed that the causes of Africa's economic doldrums and debt crisis are both internal to the countries and external. External factors include the lack of responsibility on the part of the creditors resulting in loans not achieving their intended goals or loans being pushed. The establishment of a Debt Arbitration Tribunal will usher in more responsibility on the part of the Creditors and Debtors in the transactions on loans: in terms of loan contraction processes and use of the resources for enhancing the welfare of the masses of the people in Africa and elsewhere. More importantly presenting cases that show how loans miss their intended objectives before the tribunal is expected to result in changed behaviour on the part of both the Creditors and the Debtors. Cases of hurried privatization in Africa pushed in the 1980s are worth considering.

When countries in sub-Saharan Africa became independent, the state dominated the provision of utilities. However, in the 1980s the debt crisis and the ensuing contraction of budgets prompted a re-appraisal of public sector provision. Donors began lobbying for the restructuring of public services; by the 1990s, they were demanding full-scale privatization. The hopes for privatization were so high that donor spending on infrastructure fell in the expectation that the private sector would take up the slack. For example, World Bank lending for infrastructure investment declined by 50 per cent during 1993-2002- with much of this directed towards preparing firms for privatization.

Many African governments in the name of good governance, competition and deregulation were forced to comply in exchange of balance of payment support and under the guise that it was a way to lure private investors. However, implementation of such reforms has been disastrous as no investors came on board. The lessons were that the bank did not know which lessons to teach; it also showed that countries that had ignored bank dogma (China, Vietnam, India) were thriving, while those under bank tutelage did poorly. The World Bank is on record especially in Africa for failing to tailor projects to local conditions and for sometimes attempting to accomplish more than national governments can handle- failing to help cushion poor people against price and currency liberalizations, for focusing on the fiscal sustainability of pension systems to the detriment of the poor and for promoting the privatization of essential services.

This dossier on Tanzania for a Fair and Transparent Arbitration mechanism demonstrates that the International Financial institutions' insistence and experimentation with privatization did irreparable damage that still affects the country's ability to stand on its economic feet today-years after such programmes were abandoned. Poor families suffered from the reduction in subsidies and disconnection from services when they were unable to pay. To many it meant a denial of basic human rights and in most cases it carries irreversible life impacts. After years of inflicting pain and suffering on the poor and helpless masses, it is now clear to the advocates of privatization, especially the World Bank and the International Monetary Fund that the state remains the dominant provider of health, education, water and electricity. The International Financial institutions are still responsible for the development set back and its consequences. They owe the affected a form of recompense. Cancelling debts and mere policy shifts are not enough. Most of the public providers of utilities in sub-Saharan Africa need substantially more financing, especially for investment in extending service provision. They are trapped in a vicious circle of deteriorated infrastructure, high system losses, high costs and low revenue.

AFRODAD and its international partners in the civil society wishes to present this and many other cases as evidence for the need and cause for a fair and transparent arbitration process. Justice delayed is justice denied.

Mutasa

Charles Mutasa
Executive Director
AFRODAD

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1.0 Executive Summary

Privatization is a reform measure: During the last two decades, Tanzania like many other African countries, has been privatizing its assets. In general, privatization, as one of the reform measures supported by the World Bank and IMF, has involved the transfer of all or any of three kinds of property rights from the state to the private sector; ownership rights, operating rights and development rights. Between 1995 and 2004, a total of 219 parastatals were privatized out of 400 enterprises earmarked for divestiture, and 499 non-core assets were sold.

Arguments for and against privatization: Privatization was intended to cut waste of the parastatals, improve economic efficiency, stimulate the private sector and mobilize more foreign and domestic investment. However, the process has been fraught with problems and controversy. Some of the problems include loss of jobs; donor pressure and lack of ownership and transparency; and the negative impact on social services. On the other hand privatization is noted to have some positive impacts including enhancing efficiency; increasing investment opportunities, enhancing government revenue and creating employment. A country can benefit or loose from privatization depending on how it manages the privatization process.

Donor pressure to privatize: The IMF and World Bank in particular pressurized Tanzania, and other countries, as part of their push for structural adjustment to privatize. Privatization was put as one of the conditions for a country to receive the HIPC debt relief. The pressure to privatize the Dar es Salaam Water and Sewerage Authority (DAWASA) in Tanzania provides one example of such donor pressure.

Process of privatization in Tanzania: The forms of privatization in Tanzania have ranged from outright sale of government's entire stake, to partial sale to concessions, leases, and management contract, to hiring off and sale of non-core business activities, to the opening of previously restricted sectors to the new private entrants. Generally, in some cases however, stakeholder participation was limited and there was lack of credibility including poor treatment of retrenchees in terms of their benefits, valuation of assets and lack of assistance to indigenous Tanzanians.

Benefits and costs of privatization: In Tanzania the benefits include the fact that foreign investors have invested in some manufacturing industries and brought in capital, new technologies and experience that have helped improve the performance and competitiveness of the respective industries. The other benefit is increased government revenue from taxes paid by private sector industries. However, benefits from the privatized utilities such as DAWASA and the Tanzania Electricity Supply Company (TANESCO) are at a minimum, if any, as their performances are still below expectations. The cost of privatization and the associated cost-sharing for social services led to diminished access of vulnerable communities to basic health and education programmes.

Difficulties associated with the distribution of the benefits of privatization: In Tanzania the amount of proceeds of privatization that was allocated to government is not well-known. Furthermore, there was no allocation from the privatization proceeds to social projects, schools, hospitals, and immunization programme.

Usefulness of social safety nets during privatization: In Tanzania and other countries with weak capacities the social safety nets could help to ensure that the poor have access to affordable essential services. However, no clear information exists on whether the privatization process in Tanzania effectively involved creation of such social safety nets.

Privatization and trends in employment and investment: In Tanzania, data are lacking for establishing the extent to which privatization has led to net job losses or to employment creation. In some cases too few of the retrenched were redeployed.

General Recommendations: We recommend broadly the following efforts to be considered.

- Undertaking an in-depth study to establish the net impact of privatization on employment trends in Tanzania.
- Establish mechanisms that will help to broaden company ownership to include employees and the general public. Privatized enterprises should be encouraged to join the stock market where they can sell their shares to the public.

- Ensure better follow-up and monitoring particularly with respect to establishing that private owners (buyers) implement their future investment plans as outlined during the privatization.
- Implement transactions in a more open, transparent manner, with greater involvement of stakeholders especially when privatizing infrastructural utilities. This will help to minimize corruption and also help protect the poor populations from being excluded in accessing such utilities.
- Enhance efforts to further link privatization programmes with broader development and private sector promotion strategies.

Specific recommendations: Specifically the following measures could have been undertaken by the government and creditors before privatization so as to ensure greater participation ownership and benefits to Tanzanians.

(i) Government:

- Undertake or assist capacity building to Tanzanians
- Establish fund to enable Tanzanians acquire firms that were being privatized
- Need to have had studied the actual scope and nature of the assets that were required to be privatized. This could have helped in using different and appropriate methods of privatization to different assets.
- Reduce bureaucratic practices and corruption

(ii) Creditors

- Minimize conditionalities and pressures to privatize especially the social service assets.

2.0 Introduction

2.1 Background

Privatization may be defined in a variety of ways. In this paper, privatization is regarded simply as the transfer of all or any of three kinds of property rights from the state to the private sector; ownership rights, operating rights and development rights, as these constitute the most common type of privatization in sub-Saharan Africa. In general privatization has been undertaken as one of the reform measures to reduce government role in the economy and broaden the role of the private sector.

Thus, consistent with ongoing reforms, the Government of the United Republic of Tanzania has redefined the role of the state to that of policy maker, maintenance of law and order, provider of basic social and economic infrastructure and facilitator of economic growth (URT 2006). The government recognises that it has the role to facilitate the private sector and other economic agents to actively and effectively invest in productive and commercial activities in order to accelerate economic growth and development. The Government can do this mainly through putting favourable policies in place, provision of a conducive environment for local and foreign investment, promotion of institutional changes conducive to the development of the private sector, stimulating investors' confidence through transparent, effective and efficient administrative processes in government institutions and to put in place an appropriate legal and regulatory framework.

In recognition of this important role towards creating an enabling environment for private sector development, the Government has been implementing wide ranging institutional and policy reforms. It has liberalised its economy; amended and enacted a number of investment related laws and policies, undertaken financial reforms, liberalised its trading regime; put in place an attractive investment package; and undertook a number of initiatives to promote and develop the private sector. Tanzania now has one of the most liberal investment regimes in Africa.

In supporting the complementary and supplementary role of the private sector in accelerating socio-economic development, the Government has developed modalities for institutionalising the then ad-hoc consultative process with the private sector in evolving appropriate and effective macro and sectoral policies. (e.g. through participation in the Government Tax Task force and the Public Expenditure Review working groups). Similarly, the private sector itself has evolved institutional mechanisms of interactions and consultations with the Government through umbrella organisation such as the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA), Confederation of Tanzania Industries (CTI), the Tanzania Private Sector Foundation (TPSF) and the National Business Council (TNBC) which was launched in 2001. TNBC will provide the main forum for public/private sector consultations on strategic issues of economic growth and economic development.

Public monopoly in the financial sector has been broken as there are now more than 20 private banks and financial intermediaries accounting for nearly 80% of total assets in the banking system. The insurance market has been opened to private and foreign participation and a Dar es Salaam Stock Exchange has been opened.

The IMF reported the existence of 410 parastatals in Tanzania. In Tanzania, privatization was launched in 1993 and divestiture progressed from about 100 in 1995 to 239 in 1998. The Executive Chairman of the Presidential Parastatal Sector Reform Commission reported that by 2001, over 300 parastatals had been privatized to local and foreign investors. By 2003, more than 380 of the 410 state owned companies had been privatized, including large enterprises, such as the port container terminal, part of the telecommunications company and the National Bank of Commerce. Furthermore, the agriculture and infrastructure sectors are increasingly coming under the private sector through privatisation, concessioning of assets for private operation and new entry.

As is the case elsewhere, privatization in Africa including Tanzania has been intended to cut waste, improve economic efficiency, stimulate the private sector and mobilize more foreign and domestic investment. However, the process has been fraught with problems and controversy. It is noted that the decisions to privatize where undertaken by many African leaders partly under intense pressure for economic liberalization by the IMF, World Bank and other creditor Institutions. Based on this background AFRODAD has commissioned a study for analysis of the Tanzanian experience and assess on wrong policy advice which the country might have received in line with privatization.

2.2 The Objectives of the Study

The objectives of this study are to:

(i) identify and discuss key sectors which IMF/Bank or donors called for privatization

(ii) establish the extent of national stakeholder support; credibility, resources and a conducive investment environment were secured before programme implementation

(iii) ascertain the benefits of privatization

(iv) identify and discuss the difficulties associated with the distribution of the benefits of privatization

(v) ascertain the extent to which social safety nets have been useful during privatization

(vi) to find out the extent to which employment and investment is picking up after privatization.

2.3 Structure of the Report

This report is organized into eight sections. Apart from this introduction, the second part deals with donor pressure to privatize while the third section covers the process of privatization and stakeholder participation. The fourth section presents the benefits and costs of privatization in Tanzania. In section five we provide a brief explanation of the difficulties associated with the distribution of benefits from privatization in Tanzania and in the seventh section issues of employment are explained in relation to privatization. The last section provides a summary, conclusion and makes some recommendations.

3.0 Donor Pressure to Privatize

3.1 The IMF/WB Pressure and Sectors Focused

Much of the initial impetus for privatization in Africa as well as in Tanzania came from creditor institutions, above all the IMF and WB, as part of their push for structural adjustment. For instance, the WB project or programme financing agreements included privatization and three-quarters of WB loans or credits were additional, in part, on privatizing state enterprises.

In April 2000, for instance, the IMF extended a US$181 million structural adjustment loan (through the IMF Poverty Reduction and Growth Facility (PRGF) to the Government of Tanzania (GOT). In June 2000 the WB extended a US$290 million structural adjustment loan to the GOT. To secure these loans the GOT agreed to execute a multitude of policies. Some of these are problematic policy prescriptions which many not appear in the poverty reduction initiatives under PRSP, but which do appear in lending and debt relief operations:

- Policies which require privatization of public companies; which can increase unemployment, lower wages, increase the cost of goods and services and decrease access to poor populations.
- Policies which require privatization of agricultural enterprises. Already privatization had increased the prices of fertilizer and other inputs, and reduced access to credit. While large farmers and private traders have benefited from liberalization and privatization, small farmers, who constitute the majority of Tanzania's population, have not enjoyed such benefits.

Land commercialization

It should be noted that the liberalization policies including the privatization of key state-owned enterprises were not "on the table" for negotiations. Only a handful of government officials, and, not the public, negotiated such arrangements with the IMF and the WB.

Privatization is widely thought to be a valuable policy instrument that leads to a greater good. New values into public assets are expected to be injected via privatization of public resources and the privately held capital base of a country can thus be increased.

Thus, in general, privatisation is a key part of the so-called "Washington Consensus" and both the International Monetary Fund (IMF) and the World Bank include privatisation of some or all state-owned enterprises as an integral part of their structural reform packages. The World Bank is the leader in promoting privatization as an economic reform policy.

One good specific example of donor pressure on privatization in Tanzania is the call for privatization of the Dar es Salaam Water and Sewerage Authority (DAWASA).Water privatization is a big issue in many African countries. Investors say it brings efficiency. Opponents say it hurts the poor. Whatever one believes, the poor have no say in the matter. In Tanzania, privatizing the Dar es Salaam Water and Sewerage Authority (DAWASA) was one of the conditions given if the country was to receive the HIPC debt relief. The IMF had for more than five years since 1997 been insisting on privatizing DAWASA, as a condition to include Tanzania in the HIPC initiative. HIPC inclusions provided Tanzania with a significant debt service relief. Unfortunately, conditional structural reforms, such as water supply privatization, were a high price to pay. Later, on, the Government of Tanzania under donor pressure to privatize, raised a credit to fund the US$145 million upgrade of DAWASA, that was needed to sell off (privatize) the company at a lower price, thus effectively increasing the national debt it seeks to reduce. Later on, however, there were concerns that the privatization would produce higher water bills or even become another corruption trap.

In the same way, some people even view the intention of the African Development Bank's (ADB) loan of US$47 million, partly to finance the "Dar es Salaam water supply and sanitation project" as also merely making it possible to find a buyer for DAWASA so as to ensure that DAWASA is privatized.

The IMF has been arguing that most African state-owned water suppliers are ineffective and run-down and hence the need to privatize them. However, civil society and others who oppose the IMF's approach of privatizing water supply, argue that such African state-owned water suppliers managed to at least provide many urban poor people with cheap or free water and that the IMF's approach excludes the poor from an affordable clean water supply.

It was pointed out that the poor performance of DAWASA was caused by the old infrastructure that was built in the 1970s and was deteriorating rapidly. As a result of this deterioration about 50% of DAWASA water was being lost through leakage and illegal links to the system while poor billing and revenue collection system added to the problem of inadequate water supply both in quality and quantity. This according to donor justified the need to privatize DAWASA. However critics to privatization would argue that the adequate supply of water and other public services was too often frustrated by inadequate funding, inefficient bureaucracy or lack of political will. And that rather than privatizing this essential commodity to profit seekers it would have been wise to solve these problems and ensure that water continues to be affordable to majority and accessible including the poor.

This line of argument is strengthened by the fact that experience and common sense reveal that private investors aren't attracted by poor and rural communities. Any improvement that might come with private ownership is in the areas that generate profit. Private water, telecommunication and electricity companies tend to focus on efficiency in collecting tariffs, but not on improving service. Costs usually leap up quickly, annoying middle class and wealthy customers but leaving the poor without service at all.

The IMF and WB policy prescriptions also focused on the liberalization and privatization in Tanzania's agricultural sector. Complete privatization of agricultural enterprises was anticipated to be completed by year 2003. Specifically, this meant the elimination of government involvement in the marketing and distribution of both crops and agricultural inputs. While agricultural production and exports have increased since adjustment began, so have rural poverty, income inequality, food insecurity, malnutrition and environmental degradation. As parastatals were being dismantled, the private sector was not always stepping in. Privatization contributed to a variety of problems, such as the breakdown of the marketing system.

3.2 Arguments Attempting to Justify Privatization

3.2.1 Poor Performance of the Parastatal Sector

The Tanzanian government tried the 'father does - it - all', providing all the needed goods and services for her citizens. This went on for decades after independence, but things started to fall apart when production reached the level of diminishing returns, the government had to transfer liabilities to the private sector. After the 1967 Arusha Declaration the giant, medium and small parastatal organizations were nationalized from private hands.

In general, many nationalised firms ran well for a time, but were eventually unable to reinvest and had to close. Problems of shortage of working capital and foreign exchange to import industrial inputs, obsolete technologies, poor management and inadequate and erratic supply of infrastructural services such as electricity and water contributed to parastatal under-performance, both large and small parastatals were affected. Tanganyika Packers, Sunguratex, Kiltex (Dar) or Bora Shoe were amongst the larger ones, and Afina Pencils among the smaller. New Parastatal start-ups such as Tanzania Fertiliser Company, Mbeya Ceramics, Morogoro Ceramics, Mbeya Textiles, Kisarawe Brick Company, Morogoro Shoes Company and dozens of others were never profitable and hence were closed. A 1992 survey showed that 6 out of every 10 parastatals would never be able to retire their present debts and were not credit worthy.

The Parastatal under-performance had (and still has) an adverse impact on the banking sector. The largest loss-makers, such as the National Milling Corporation, often received loans at the behest of Government and against the better judgement of the commercial banks. The result was a public sector banking system with a weakened loan portfolio and eroded capital base, unable to expand lending until it regains strength - thus pushing up the real interest rate unnecessarily on any lending that was still possible. The losses of the parastatals had their impact on other borrowers, who often included the poorest with least access to other sources of finance. Another impact of under performance was on the Government budget, which was deprived of revenue as is discussed below. The result expenditure cutbacks and or additional borrowing which had an inflationary impact and again it was usually the poor who suffered most.

3.2.2 Pressure on Government Funds

Instead of contributing to the nation's coffers, the parastatal companies were doing the reverse-asking from the state for more and more subsidies and capital needed to sustain their operations. In 1996, the Minister for Industries and Commerce stated that parastatals owed the Treasury a total amount of Tshs. 600,146,188,939 (excluding loans from other sources). The total debt by parastatals amounted to Tshs. 1.4 trillion.

There is no satisfactory estimate of the total capital invested in the Parastatal sector. Rather than receiving a sustained flow of dividends from its investments, Government was suffering explicit and implicit fiscal losses equivalent to over 7% of GNP a year - almost half the level of new investment in the country. Most parastatals also maintained excessive number of workers at high costs. On average maintaining jobs often costed around Tshs 2 - 3 million per job per year. As a result even the most profitable parastatals - like the Tanzania Cigarette Company - despite having received tax exemptions still had difficult in generating cash with which to pay declared dividends. And the least profitable, such as Southern Paper Mills, benefited from a debt write - off of some Tshs 35 billion in 1994 / 95 alone. Such money is gone forever; it could have paid for an increase of almost 20% in the country's recurrent health budget.

Later the economy started to fall apart, and the government decided to reform the ailing economy. The government is limiting its role in the economy to that of provider of public goods and regulator and facilitator of private commercial activity. This situation has allowed the private sector to blossom to be more efficient and productive. At present the private Sector alone accounts for over two thirds of the gross Domestic Product (GDP) and nearly 90 percent of paid employment.

4.0 Processes of Privatization in Tanzania

In Tanzania privatization has included many forms, ranging from outright sale of government's entire stake, to partial sale, to concessions, leases, and management contracts, to the hiring off and sale of non-core business activities, to the opening of previously restricted sectors to the new private entrants and competitors. In the latest phase, the government has extended the privatization programmes to utilities that play major role in the economy. These include the Tanzania Electrical Supply Company (TANESCO), the Dar es Salaam Water and Sewerage Authority (DAWASA), the Tanzania Railways Corporation (TRC) and Air Tanzania Corporation.

4.1 Stakeholder Participation

There are many types of privatization. There are also many options other than privatization that can deal with poorly-managed or corrupt state-owned companies and revenue shortfalls. The decision to sell state assets to private corporations need be subjected to broad public debate. Too often privatization has entailed selling state-owned companies to multinational corporations or to the privileged local business class with close links to government elites. In many cases the bidding procedures for state-owned companies lack transparency. Under these conditions privatization decisions exacerbate wealth and income concentration and decrease the accountability of the privatized entities to poor regions and poor populations.

Along with fears of increased unemployment and concerns about selling national assets to foreigners, a leading political concern in privatization is fear of nontransparent and corrupt transactions. Lack of transparency leads to allegations - and documented cases - of corruption, provides ammunition to opponents, creates backlash from investors and the public at large, and threatens to halt or even reverse privatization and liberalizing reform in general.

4.2 Credibility of the Process

Some of the weaknesses of the privatizing institutions include difficulties to get credible buyers, treatment of retrenchees in terms of their benefits, valuation of assets and how to assist the indigenous Tanzanians in the whole exercise.

An example of the problems of privatization in Tanzania is the Kilimanjaro Hotel in Dar es Salaam which failed to get a buyer since 1996 when its privatization process began. Another good example of controversial privatization is the sale out of the giant NBC 1997 Ltd; the former National Bank of Commerce which was split into two banks before it was sold. Instead of being sold at Tanzanian shillings 21 billion as it was earlier agreed it was only sold at Tanzania shillings 15 billion only. Two senior Tanzania government officials had to go fly to South Africa to re-negotiate again. However the Amalgamated Bank of South Africa management said the valuation was overvalued.

During the 2006/07 budget session concerns were raised by parliamentarians on the plight of employees of privatized firms, in particular, leather and allied industries, in Morogoro municipal, which after purchase, buyers turned the factories into go-downs (Mtanzania: 8th August, 2006).

Lack of credibility in the privatization process in Tanzania is clearly revealed in the privatization of DAWASA and TANESCO the two parastatals responsible for the supply of water and electricity, respectively. It is officially noted that the privatization plan, which was to provide better water services to the country's capital Dar es Salaam, had in fact led to the deterioration of the city's water supply. The Government officials blamed City Water Services a private operator, for investing only half the amount that was needed to replace worm out parts in the City's water supply system and to expand the water supply network. Thus, after only two years of privatization the Tanzanian government scrape the deal with the water private company in 2005.

In addition, how the money accrued from the sale of parastatals is being used remain questionable. In 1999 it was announced that over 146 billion had accrued from the sale of parastatals, however, how the money was spent is not known. At least some of the money was supposed to be injected in the Privatization Trust Fund to assist indigenous Tanzanians to by shares in privatized public enterprises.

4.3 Resources and a Conducive Investment Environment prior Implementation

The measures and policies conducive to private investment in place are summarized in Table 4.1.

Table 1: Enabling laws/regulations for private investment

No	Policy	Regulation enforcing law / Act
1.0	Conversion and transfer policies	Permit the unconditional transfer of profits has not expropriated any foreign investment
2.0	Expropriation and compensation (none since 1985)	Since 1985, the government
3.0	Dispute settlement Tanzania is a member of the centre for the settlement of investment Disputes (CSID) and multilateral Guarantee Agency(MIGA	Licensing Act the Business registration court
4.0	Investment benefits as Stated in the investment Act,	A set of laws enforce this plus the land Act 1999
5.0	Right to Private Ownership and establishment	Commercial Court and land Court
6.0	Protection of property rights	Public procurement Act; TIC
7.0	Transparency of the regulatory system	Capital markets and securities Act; TIC
8.0	Efficient capital markets and portfolio Investment	Capital markets and securities act, 1994
9.0	OPIC and other Investment Insurance programs	OPIC insurance programs are available
10.0	Foreign Trade zones / free Trade zones	EPZs and Free Trade Zone at Zanzibar,Tanga and Kigoma.

The government also made much progress with the restructuring of the state-owned financial sector, which accounted for over 70 percent of the banking system's assets in 1995. The Cooperative and Rural Development Bank (CRDB) was privatized in 1997. After some delay (due to a change in the divestiture strategy) the National Bank of Commerce (NBC) was split into the NBC (1997) and the National Microfinance Bank (NMB) in September 1997. Agreement has been reached on the sale of NBC (1997) to the South African bank ABSA, which began managing the bank in August 1999, and the NMB was put under private sector management at end-July. The BoT has made considerable progress with the establishment of a modern bank supervision department, and prudential regulations have been based on internationally accepted guidelines. The Dar es Salaam Stock Exchange became operational in April 1998, although by mid-1999 only two newly privatized companies had floated shares on it. A liberalized insurance regime took effect in May 1998 with the establishment of the National Insurance Board, and about ten private companies received licenses. Taken together, the deregulation and privatization programs represent a major effort to engage the private sector in areas of economic activity previously monopolized by the Government.

5.0 Benefits and Costs of Privatization

5.1 Arguments for Privatization

Privatization is not an end in itself, but it is a key tool for improving the efficient allocation of resources, for mobilizing investment, and for stimulating private sector development. Privatization does this because it:

- brings into the open the inefficiency of state run businesses;
- makes investment opportunities available;
- highlights the need and becomes the catalyst for capital market development; and
- contributes towards openness by forcing government dialogue with the public

In a summary, well performing privatized enterprises can contribute meaningfully to government revenue and to the economy as a whole in the form of taxes, increased production of quality goods and services, creation of more employment opportunities and introduction of modern technology.

Mwandenga (2000) identifies the arguments for privatization as follows: First, sale of publicly owned assets generates immediate revenue as opposed to fiscal drain from public coffers. Second new investors from within and abroad emerging markets are attracted. Third, privatisation can be justified by providing opportunities for broad access to financial markets by members of the society through the stock exchange. Privatization makes investment come from a variety of sources, including retail investors, institutional investors, and corporate investors. Fourthly, the exercise encourages private capital flows to emerging markets. Fifthly, large external debt which has negative impact of macroeconomic stability can be reduced partly through privatization as the country's fiscal burden is reduced.

5.2 Arguments against Privatization

What are the strands of the anti privatization argument? First, opponents contest that privatization has produced financial and operational benefits, or at least enough to offset the social dislocation it causes. Some who acknowledge performance improvements attribute them to increased competition rather than change of ownership, with the implication that less painful instruments could effect needed financial and efficiency gains. Second, there is fear that privatization leads to layoffs and a worsening in labour conditions, in the short term in the divested firms and in the longer run in the economy at large. Third, some argue that even if privatization enhances enterprise efficiency, the bulk of the benefits accrue to a privileged few-shareholders, managers, domestic or foreign investors, those connected to the political elite - whereas the costs are borne by the many, particularly taxpayers, consumers, and workers, thus reducing overall welfare. In addition, many are concerned that the often perceived corruption and lack of transparency in privatization transactions have minimized gains and increased broader problems of governance. Underlying all of these arguments is the fundamental concern that privatization has been applied without proper regard to a country's economic and social conditions, often at the behest of external actors.

Privatization has been blamed for a number of reasons. First is that public ownership promises social progress as opposed to private ownership. Second, through privatization, ownership of the major means of production is shifted from the majority to the minority. As a result, the indigenous populations influence in decision-making is marginalized. Third, huge employment opportunity to indigenous population was created by the public sector; in most cases privatization causes retrenchments and reduces employment opportunities.

Fourth, while privatization is a panacea for inefficient provision of private goods and services, it is not the case for public goods and services such as education, health and security has also been argued that privatization of natural monopolies such as railways, electricity, and water supply does not change the inherent monopolistic characteristic of such industries. Lastly, due to income poverty, only the minority may afford to participate effectively in private ownership.

Implementation of the public sector reform program has resulted in loss of jobs for about 27,000 employees on the government payroll. The civil service reform program has given rise to mandatory retrenchment of more than 70,000 public servants during the past five years.

The fear of job losses is the stumbling to privatization. Trade Unions make employment the number one issue in the privatization deal. Collective bargaining is imposed and the levels of end of service benefits set.

A close picture of the impact of privatization on labour, however, requires data on total job loss during privatization period. To get net losses, one needs to take into account new recruits, and represent a percentage of employment level at privatization.

5.3 Looking at Tanzania's Experience of Privatization

5.3.1 Impact on Efficiency and Effectiveness in Service Delivery and Competition

Privatized firms perform better than state enterprises, but new private firms perform better than both. Promoting competition by removing entry and exit barriers and by linking privatization with financial sector reforms is crucial for the development of a dynamic and competitive private sector and thus for successful privatization.

Competition is equally important in tradable sectors. It requires eliminating import restrictions, deregulating prices, and simplifying procedures for starting a business. Removing entry barriers is particularly important in transition economies, where state enterprises dominated all markets and where restrictions on private participation and entry were powerful.

Tanzania's manufacturing sector is relatively small. However, the privatization of state owned companies in the sector has attracted a number of international players including South African Breweries in Tanzania Breweries, Japanese Tobacco Company in Tanzania Cigarette Company; Lafarge, Holderback Scancem in Cement production and Illovo Sugar/EDF Man in Kilombero Sugar Company. These and other foreign investors have brought in capital, new technologies and experience that have helped improve the performance of respective companies, which are now competitive.

5.3.2 Effect on Public Access to Services and Affordability

The Case of Privatization of Water Supply

In late 1996 the Government of Tanzania (GOT) decided to expand the privatization program to divest all major utility and infrastructure PEs (water, telecommunications, ports, railways, electricity) banking, agriculture and mining PEs.

Dar es Salaam Water and Sewerage Authority (DAWASA) is a Public Corporation established by statute, the Dar es Salaam Water and Sewerage Authority Act, 1981 as amended in 1989, 1999 and 2001. The Government of Tanzania wholly owns it. It is responsible for the provision of water supply and sewerage services in the Greater Dar es Salaam area covering Dar es Salaam and part of Coastal Region.

DAWASA has used the Ruvu River as its main water source since the 1950s. The Upper Ruvu scheme has a present capacity of about 81 Mld (millions of litres per day), while the Lower Ruvu scheme has a design capacity of 182 Mld. Other sources, which are being used are at Mtoni to the South of the City with a capacity of about 9 Mld, and ground water.

The DAWASA area of supply covers not only the city but also the villages and townships on the route of the two transmission mains. The approximate length of existing mains in the city is about 824km, with 237km of primary distribution and 587km of secondary distribution mains.

DAWASA provides water from the distribution mains at standpipes located around the city. There is no charge for this water, which is used by individuals, as well as water vendors who charge their customers for the water they transport.

There are numerous private business operating water tanker services within the city, and it is estimated that about 16 tankers are used to ferry water to premises with underground water tanks on a daily basis. DAWASA does not provide such a service. Private vehicles carrying water containers are a common sight in the city, as people transport water to their homes. A feature of life in the city is the number of water vendors providing a valuable service to the people by transporting water to their premises in custom built carts carrying six 20 litre containers.

This is not an IMF demand unique to its Tanzania policy. The Fund is promoting water supply privatisation all over the continent, often causing protests from civil society and international anti-globalisation groups. Although African state-owned water suppliers mostly are ineffective and run-down, they at least have provided many urban poor with cheap or free water. Protesters claim these international takeovers are excluding the poor from an affordable clean water supply.

Rather than contributing to poverty reduction, water privatization and greater cost recovery make water less accessible and less affordable to the low income communities that make up the majority of the population. The alternative is to revert to unsafe water sources or more distant sources.

The most immediate impact of reducing the accessibility and affordability of water falls on women and children. World-wide, more than five million people, most of them children, die every year from illnesses caused from drinking poor quality water. When water become more expensive and less accessible, women and children, who bear most of the burden of daily household chores, must travel farther and work harder to collect water - often resorting to water from polluted streams and rivers.

The Existing Sewerage Services

The Sewerage System of Dar es Salaam is really a collection of independent micro-systems, rather than a fully integrated network. The systems are (in theory at least) of the separate type and have been developed since the 1950s. The City Centre and immediate surrounding areas are served by a sewer network with ultimate discharge to the ocean via an outfall. Other served areas of the City are mostly centred on institutional areas such as the Airport and the University of Dar es Salaam. The sewage from these areas is treated in oxidation ponds with discharge to rivers or streams. All systems are a combination of both gravity and pumped flow.

The sewerage systems of Dar es Salaam comprise the following major components:

- Nine stabilization pond sites;
- Fifteen sewage pumping stations;
- Approximately 170km of gravity sewer and pumping mains;
- A 1km long, 1,000mm diameter ocean outfall and screening house;
- Three depots with office, workshop and storage facilities.

There are some nineteen different organisations, which collect waste from septic tanks and pit latrines etc. The prices are exorbitant and thus not accessible by the poor. The solution resorted to is to empty the latrines during heavy rains posing some health problems to neighbourhoods.

The Case of Privatizing Electricity Supply

The Government has been implementing extensive restructuring and privatization of the electricity sub-sector in order to attract investment and increase efficiency. In the new electricity industry structure, TANESCO, which is presently vertically integrated utility, will be divided into separate segments responsible for power generation, transmission and distribution. Generation and distribution activities will further be divided into a number of companies to allow private participation and competition in those areas.

As part of the reform process, TANESCO's monopolistic nature of operation ceased and since then, there has been some generation by Independent Power Producers (IPPs). Power generated by IPPs is sold to TANESCO. Examples. Examples of current IPPs and their corresponding generation capacity, in brackets, are as follows: Kiwira Coal Mine (6MW), TANWAT (2.5MW) and Independent Power Tanzania Limited - IPTL (100MW). IPTL is a medium speed diesel fuelled thermal power station in Status of Power Sub-Sector Reforms and Promotion of Renewable Energy and Energy Efficiency 3 Partnerships.

The privatization of the large utilities including TANESCO is a complex process, requiring full audits, legislative changes, and the preparation of regulatory frameworks.

Tanzania's electricity supply has been erratic because of the national grid's heavy reliance on hydroelectric power, which in turn depends on rainfall. Poor rainfall can lead to a rapid drop in water levels in the dams that generate hydroelectricity, causing power cuts that hold back industrial growth.

Following privatization of TANESCO, it is quite unlikely that distribution companies will have any incentive to carry out rural electrification. This means the function will remain in the hands of the Government. In the light of this possible development, and through national energy policy initiatives, plans are on the way to establish both Rural Energy Agency (REA) and Rural Energy Fund to ensure rural energy services are smoothly provided to the population. Rural energy includes renewable energy and energy efficiency and conservation.

Table 2: Percentage of rural and urban households with access to electricity

Country	Rural Households	Urban Households
Botswana	2	27
Ethiopia		13
Malawi	0.3	30
Mozambique	0.6	17
Tanzania	1	36
Uganda		23
Zambia	1.4	25
Zimbabwe	18	80

TANESCO has encountered huge domestic criticism in recent years for the high level of its tariffs in comparison with those in other countries in the Southern African Development Community (SADC). A study by South African Development through Electricity (SAD-Elec) on electricity prices showed that Tanzania consistently had the highest prices in the regional grouping. The country also has large uncollected electricity-supply debts. However, to advance the privatisation process, the government brought in a South African company, M/S Net Solutions, to manage Tanesco. In recent years TANESCO launched a campaign to encourage payment and restore a "credit culture", including disconnecting non-payers. However, the power tariffs are still high and unaffordable to poor population and electricity supply is still erratic and available in only few places mainly urban areas.

"Cost-Sharing" to Dispensaries and Health Centres

Fiscal constraints had resulted in government cutbacks in social services. World Bank officials argued that people were willing to pay for health and education services and that additional fees would allow for the extension of health and education services to a broader service area. However, evidence showed that "cost-sharing" measures actually diminished access of vulnerable communities to basic health and education programmes. As a result, in Tanzania literacy rates and school enrolment fell. In Dar es Salaam, the three public district hospitals saw attendance drop by 53.4% between the second and third quarters of 1994, when user fees were introduced.

5.3.3 Ownership and control of Privatized Assets and Services

The essence of privatization is the total or partial transfer of ownership of State owned enterprise to the Private Sector the Government exits totally or accepts to lose part of its control by broadening the ownership.

During 1995-2005, a total of 219 parastatals were privatized out of 400 enterprises earmarked for divesture, and 499 non - core assets were sold. Out of the privatized enterprises, 147 were privatized to Tanzanians through 100 percent share sales, 38 enterprises were privatized to foreign investors through 100 per cent, and 34 parastatals were sold through joint venture arrangements between the government, Tanzania nationals including those sold to employees and management of the respective parastatals. The number of parastatal enterprises with central government involvement was reduced to 47 by the end of year 2004, of which 8 were under privatization at various stages.

Since the inception of the privatization program in 1993, tremendous achievements have been realized; whereby a total of 811 divesture transactions had been completed. This figure is made up of the divesture of 312 units and disposal of 499 non-core assets.

5.3.4 Financial Benefits from Privatization

Theoretically, privatization should benefit the government finances. An improvement in public finances can occur either by raising one-off revenue reducing the need for operating subsidies and investment capital. It is expected that the proceeds of the privatization transactions will be of some substance and will come in addition to regular government revenue.

More importantly the new owners or managers are supposed to bring in capital investment, higher technology and know-how. The improved enterprise will be the source of increased taxation product, directly on new profits and indirectly through the improved turnover and salary distribution.

Before privatization the government was paying in staggering $100 million a years as subsidy to the ailing parastatal organizations which were making a loss to the line of $ 300 million a years.

In Tanzania, the benefits of privatization can be seen clearly in some few cases. For example the privatization of Tanzania Breweries Ltd (TBL) ran jointly by Indo International BV and the Tanzania Government has produced good results both financially and the volume of beer production. After privatization in 1993, TBL reorganized its production facilities, motivated its employees by paying them handsomely and replacing old technology with a new one. As a result TBL beer production almost tripled from cases 3,756,186 in 1991 to cases 9,770, 457 in 1996. At the same time profit after tax increased from Tshs 390 million in 1991 to Tshs. 13,227 million in 1996. Furthermore, before privatization its annual revenue never exceeded Tshs. 15 billion. TBL's overall performance improved significantly after privatization on in year 2000/01 it paid Tshs 58 billion in taxes. It also paid Tshs 25.5 billion in dividends to its shareholders.

Other examples of good performers include:

- Morogoro Canvas Mill, which at privatization in 1998 paid us taxes (because at was closed) was turned around and started paying taxes, Tshs 145 million and Tshs 205 million in 1999 and 2000, respectively.
- The Handicrafts Marketing Company (HANDICO), paid no tax before it was privatized in 1996. After the new investors came in (management and workers) HANDICO started paying an average of Tshs. 1.2 million annually.
- Mtibwa Sugar Company in Morogoro Region, paid over Tshs 800 million (VAT alone) in 2000. At privatization in 1998 Mtibwa had tax arrears amounting to Tshs 400 million which was cleared by the new investor.
- TLL (formerly Kibo Paper Ltd) performed poorly before privatization, but in 1999 and 2000 it paid Tshs. 460 million and Tshs. 662 million, respectively, as taxes.
- The Blankets and Textile Manufactures Ltd paid zero taxes when it was privatized in 1997 (because it was closed). The new investor, who is a Tanzanian, revived production and paid Tshs. 126.4 million and Tshs. 163.9 million as taxes, respectively in 1999 and 2000.

5.4 Difficulties associated with the Distribution of the Benefits of Privatization

Determining which share the proceeds of privatization is allocated to the government is difficult. To overcome this difficulty, the notion of 'sales value' of deals is used to determine the share to the government. During the period of privatization program Tanzania received 4.3 per cent of the annual sales value of the privatized assets.

Proceeds of Privatization could be a source of government revenue. However, there is no special allocation for social projects, schools, hospitals, immunization programmes etc that can be identified as coming from proceeds of privatization. The government has in the recent past increased allocation to health and education and obviously some proceeds from privatization has enhanced the ability of the government in financing social services.

5.5 Usefulness of Social Safety Nets during Privatization

The extensive labour force reductions that usually accompany the restructuring of large state enterprises often lead to political backlash. One way to reduce tensions is to engage in dialogue with employees early on and to jointly work out acceptable solutions. Generally, this involves compensation payments, free or low-priced shares in the privatized firm, and augmented retirement and severance benefits to encourage voluntary departures in place of layoffs. Voluntary departures are often considered more politically and socially acceptable, and the financial and economic returns can be high. But such programs can be quite costly in the short run and can result in adverse selection (the best, most mobile workers apply to leave) and, in the case of early retirement payments, heavy financial burdens on the social security system and better tailoring of privatization to local conditions. In countries with weak capacities, it also means emphasizing the policy and institutional underpinnings of market operations rather than focusing solely on privatization transactions. This involves developing and protecting competitive forces, creating proper regulatory frameworks (essential for both efficiency and equity) before privatization, introducing and enforcing transparency in sales processes, developing social safety nets for the adversely affected, and introducing innovative pricing and subsidy mechanisms to ensure that the poor have access to affordable essential services.

5.6 Privatization and Trends in Employment and Investment

Implementation of the public sector reform program has resulted in loss of jobs for about 27,000 employees on the government payroll. The civil service reform program has given rise to mandatory retrenchment of more than 70,000 public servants during the past five years.

The fear of job losses leads to resistance to privatization. Trade Unions make employment the number one issue in the privatization deal. Collective bargaining is imposed and the levels of end of service benefits set.

A close picture of the impact of privatization on labour requires data on total job loss during privatization period. To get net losses, one needs to take into account new recruits, and represent a percentage of employment level at privatization. Mwandenga (2000) points out that negative divestiture results seem to hinge primarily on the number of retrenches. According to him, this factor calls for further research to quantify the exact amount of loss of job opportunities, since there are cases where divestiture led to an increase in job opportunities. In some cases some of the retrenched were redeployed.

6.0 Summary, Conclusion and Recommendations

6.1 Summary

Large and growing percentages of citizens view privatization as a harmful policy, often imposed by external agencies without due consideration for the economic and social context. Protest of higher prices, corrupt transactions, alienation of national assets to foreign investors, and job losses have become common.

Non-governmental organization activists and analysts also note the manner in which privatization has been implemented (without adequate regard for local conditions) and, at times, its essential rationale.

The benefits of privatization tend to be diffused among consumers or citizens as a whole, small for each affected individual, and slow to materialize. To illustrate, a 10 percent reduction in electricity tariffs amounts to a large sum in the aggregate but might be of little significance to individual consumers. It normally takes some time before the other possible benefits of privatized electricity generation - less pollution, more reliable service that might stimulate private investment elsewhere in the economy - are discernible. The costs of privatization, however, are likely to be concentrated (dismissed workers, increased charges), large for each individual affected, and rapidly apparent. Politically, losses are felt more intensely than gains, with prerecord consumers generally unorganized, silent, and nearly invisible political, and anti-reform workers, civil servants, and anti-market intellectuals frequently organized and vocal. The political process naturally responds to the intense and those with "voice".

Tanzania has been aggressively implementing its privatization agenda. The privatization of manufacturing and commercial parastatals was virtually completed by 2000 with some success. The reform and privatization of infrastructure utilities proved much more difficult and has been without much success. This situation even prompted the President of Tanzania to appoint a Privatization Review Commission to review progress in the privatization of infrastructural facilities.

Privatization may have been oversold, particularly in countries with weak institutional capacity. Proponents underplayed the costs, predicted quick and widely shared gains, insisted on speed, and often claimed that ownership change was critical to a general economic turnaround. With the benefits overplayed, it is not surprising that privatization is blamed when general economic conditions fail to improve or when competitive markets and regulatory frameworks are not sufficiently developed to support privatization.

Going forward, what can be done to address these concerns? There is still much debate about ownership and competition that needs to be addressed. Equally important is improving the privatization process itself, taking measures to promote competition, putting in place proper regulatory frameworks, ensuring transparency, mitigating social costs, and tailoring privatization to local conditions.

Successful privatization on natural monopolies requires development of regulatory frameworks and institutions that are independent, accountable, and resistant to capture by the private provider or the state. Such frameworks are essential to protect consumers against abuses of monopoly power, assure investors that they will be fairly treated, and address broader equity concerns. (EWURA, SUMATRA in Tanzania).

6.2 Conclusions and Recommendations

In Tanzania as is the case in many other developing countries much of the impetus for privatization came from creditor institutions, above all the IMF and the World Bank, as part of their push for structural adjustment. This is, however, not to say that privatization was or has been completely based on external influence alone. There is ample evidence which show that most parastatals were seriously underperforming and were becoming too much of a burden to the government in terms of financial assistance.

Thus, in some areas privatization has produced good results in terms of improved performance, increased tax revenues, employment, efficiency and competition. This is particularly in reference to some few industries like TBL and TCC. However, in some other sectors particularly the infrastructural utilities privatization has produced poor results with little or no improvement in the quantity and quality of the services such as electrical and water supply.

The prices of these services have risen so much to the extent of making the services not accessible and unaffordable by many people particularly the poor population.

In general, there has been some benefits as well as some costs from the privatization initiatives that have been undertaken in Tanzania. It can be argued that several efforts are required further improvement in the privatized enterprises. Critical look is required particular with reference to privatization of infrastructural utilities.

6.2.1 General Recommendations

We recommend broadly the following efforts to be considered:

- Undertaking an in-depth study to establish the net impact of privatization on employment trends in Tanzania.
- Establish mechanisms that will help to broaden company ownership to include employees and the general public. Privatized enterprises should be encouraged to join the stock market where they can sell their shares to the public.
- Ensure better follow-up and monitoring particularly with respect to establishing that private owners (buyers) implement their future investment plans as outlined during the privatization.
- Implement transactions in a more open, transparent manner, with greater involvement of stakeholders especially when privatizing infrastructural utilities. This will help to minimize corruption and also help protect the poor populations from being excluded in accessing such utilities.
- Enhance efforts to further link privatization programmes with broader development and private sector promotion strategies.

6.2.2 Specific recommendations

Specifically the following measures could have been undertaken by the government and creditors before privatization so as to ensure greater participation ownership and benefits to Tanzanians:

Government

- Undertake or assist capacity building to Tanzanians.
- Establish fund to enable Tanzanians acquire firms that were being privatized.
- Need to have had studied the actual scope and nature of the assets that were required to be privatized. This could have helped in using different and appropriate methods of privatization to different assets.
- Reduce bureaucratic practices and corruption.

Creditors

- Minimize conditionalities and pressures to privatize especially the social service assets.

7.0 References

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Privatization of state-run enterprises entities has enhanced private sector involvement in the Tanzania economy. Over staffed and poorly performing parastatals have been replaced with new enterprises that are more competitive in international and local markets.

Currently the industries are performing well, and the govt is getting sizeable revenues in the form of tax revenues.

In the latest phase, of privatization the government has extended the program to utilities that play a major role in the economy. These include the Tanzania electric supply company (TANESCO).

TANESCO's national system

Only 6% of the population have access to electricity

M.R. Bhagavn ( ) "Some Public Benefit Policy Aspects in Reforming the Power Sectors in East and Southern Africa Stockholm Environment Institute http//www.sei.s/climate workshop.

8.0 Footnotes

TANESCO

1. TANESCO litany of complaints about public-sector monopoly utility include lack of

- adequate supply of power
- reliability of supply
- technical efficiency
- accountability and transparency
- profitability
- investment for new generation
- investment in modernization
- supply to rural areas
- supply to the urban poor

2. Between 1990-2000, nearly seven fold tariff increase Tsh. 11 to 72 per Kwh (US cents 5.6 to 9) for industrial and commercial users. Life line block tariffs for households, subsidises the poor. First 100kwh per month 1/3 LRMC rate, next 100-500kwh, half the UNMC; there after full LRMC.
3. Provision of power to the poor not explicitly part of the reform process. No budget resources earmarked main barrier, connecting up charges (up front costs) $200 minimum.
4. Poor households consume less than 80 KWh per month, life line tariff vital.