Privatization in the name of public private partnership: the case of Tanzania Breweries Ltd., an evaluation

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Abstract

The policies of International Monetary Fund (IMF) and the World Bank (WB) have made significant impact in most developing countries, particularly in South of the Sahara. Foreign direct investment (FDI) is one of the policies spearheaded by these institutions. Countries like Tanzania, Uganda and Kenya, have experienced a wave of economic reforms in recent years. These reforms, to a larger extent, which have been inspired by International Institutions, have recently faced with a magnitude of concerns which is expressed in terms of whether the right kind of pre-conditions exists for these measures since some of the measures don't produce the desired outcomes in some developing countries. The thrust of the evaluation has been on whether privatization through Public Private Partnership presents a profitable policy in Tanzania. In other words, if there is any evidence of significant performance of State Operated Enterprises after privatization. This research takes stock of the evidence in pre and post three privatized companies and shows that in competitive environment privatization has been a resounding success in improving performance of public enterprises.

Keywords: *privatization, public private partnership, Tanzania Breweries Ltd., the World Bank.*

JEL Classification: K11, K22

1. Introduction

Markets or private ownership of resources are not new in Africa. However, the role of the private sector in the national economy in Sub-Saharan African countries has been limited by the deliberate choice of governments in their search to define the best path for economic growth and development. Africa's reliance on the private sector stems from its colonial experience and ideological attitude after independence. The colonial years had adversely affected the development of entrepreneurial talent in Africa. While indigenous labour was used extensively in the colonial establishments, potential entrepreneurs were not cultivated to learn the tools of trade. For most part, the colonial powers used their own people for enterprise management and did not share their knowledge and skills of commerce

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and finance with native Africans as per Debebe[2]. As a result, the indigenous entrepreneurial class was unable to learn the tools of the trade and compete with the colonial business establishment. This colonial trend of not cultivating and encouraging local entrepreneurs continued even after African nations got their independence. With self-rule, Africans discovered the development gap between them and the industrialized world. The continent remained mainly an agricultural society with little industrial development. To design the development strategies and to set the course in motion, it was believed that in the early stages of development the State could direct the development process more reliably than markets. This belief was also shared and supported by the United Nations and its agencies, including the World Bank[3]. The State took it upon itself to assume the role of the entrepreneur and it was committed to play a leading role in setting national strategies for economic development. Domestic savings through high taxation together with foreign aid and borrowing provided the resources needed for capital formation and the massive creation of state-owned enterprises as per Mugerwa[4]. In socialist countries like Tanzania, Mozambique and Ethiopia, the State controlled virtually all aspect of economic life with little or no appreciable private initiatives. Military or rightwing governments also pursued similar strategies emphasizing greater reliance on the public sector as per **Nwankwo and Richards**[5]. As a result, in many African countries, state-owned enterprises commonly known as parastatals proliferated after independence.

According to Debebe, a 1986 World Bank study documented evidence of poor performance by African SOEs. The study indicated in some West African countries, for example, 60 percent of the SOEs posted net losses while some 36 percent showed negative net worth. Accumulated losses of SOEs have also risen steadily in countries like Benin, Mali, Mauritania, Nigeria, Senegal, Sierra Leone, Sudan and Zaire. Kenya was the only country that showed a positive rate of return which amounted to a small 0.2 percent (Debebe, 1993).

The above results of public ownership policies in Africa over the past twenty five years of practice shows the policies have failed to produce sustained economic growth and development (Debebe, 1993). African economies have stagnated, recording minute growth rates, declining per capita incomes, increasing poverty, and a standard of living lower than what it was during the immediate post independence years (Debebe, 1993). According to a UNDP **report**[6], a majority of the world's least -developed and poorest countries are in Sub-Saharan Africa where

[2] Debebe F, (1993) Privatization in Sub- Saharan Africa. *Origins, trends and influences on development strategies*. Centre for Economic Research on Africa. Montclair State University. Upper Montclair, New Jersey 07043

[3] Idem

[4] Mugerwa S. K, (2002) Privatization in Sub-Saharan Countries. *Factors affecting implementation*. Available on http://www.ciaonet.org/wps/kas06.pdf accessed on 02/11/2015

[5] Nwankwo S and Richards D.C, (2001) Privatization – The myth of free market orthodox in Sub-Saharan Africa. *The International Journal of Public Sector Management14:2; 165*

[6] United Nations Development Program (2003) *Human development indicators 2003* available on http://www.undp.org/hdr2003 accessed on 31/10/2015

ethnic unrests, civil strife, natural disasters and overwhelming amounts of debts and mounting balance of payments problems hindered their ability to grow and develop economically. For most countries in Africa the situation was so critical that there was no way they could tolerate the economic crisis without the help of international agencies such as the WB and IMF. These two agencies, along with the United States Agency for International Development (USAID), have been instrumental in the initiation of economic reform and privatization in Africa (Nwankwo and Richards, 2001). The World Bank, through its structural adjustment policies has continued to emphasize growth through improved allocation efficiency and greater reliance on markets. The IMF also, through its "conditionality program", has put pressure to African governments to reduce the role of the public sector. Under the conditionality program for borrowing often included eliminating price controls, reliance on market forces, liberalizing trade, and restraining public sector growth (Nwankwo and Richards, 2001). Though it is not explicitly stated but in many instances, countries with privatization programs have often been considered to have met the IMF conditionalities. The USAID has also sought to promote privatization in many African countries where it has financed development projects. Thus the privatization movement in Africa originated from the explicit and implicit conditions imposed by the West and its institutions for receiving aid rather than from the realization of basic weaknesses in the approaches of the past.

The essence of privatization in Africa is different from that of the West. While the Western industrial economies recognize the primacy of markets and rely primarily on the private sector, they have also legitimized government intervention when markets do not work well or they fail to produce optimum outcomes either because of externalities or the existence of public goods.

This research is aimed at a better understanding on the impact of privatization through the eyes of Public Private Partnership that has taken place so far on profitability and performance of State Operated Enterprises.

While researchers acknowledge the importance of primary data as a main source of obtaining a more realistic feel of the problem and therefore adding substantially to knowledge as per **Matveev**[7], this research draws information related to privatization from secondary data. The survey of the existing literatures on privatization/ Public Private Partnership consists of government of Tanzania published reports, census report, journals, articles, textbooks, management reports, seminar papers and electronic data.

2. Methods of Privatization/Public Private Partnership in Tanzania

Principally there are three broad strategies for privatizing some or all aspects of the public sector production and delivery of goods and services. These are: (i) Direct sale of assets; (ii) Contracting and leasing; and (iii) Voucher system.

[7] Matveev,K (2002) The advantages of employing qualitative and quantitative methods in intellectual research. New York

The choice among these methods depends upon the particular need and conditions of the country in question.

2.1 Direct Sale of Assets

This strategy calls for the sale of all or part of the public enterprise to private Investors. The sale of the asset can be carried out through a public stock offering. If this strategy is successful, there will be a short term immediate benefit to the government in the form of increased revenues which it can use to finance expenditures, repay loans, or defer tax increases (Debebe, 1993). The long-term benefits stem from reduced burden of government, the termination of subsidies and the efficient provision of goods or services by the private sector.

If complete sell offs are not possible, the government could also look at partial sales to private investors with the sale of at least 51% of the shares or it can sell the assets on a piecemeal basis. Another alternative would be to sell the enterprise to the current employees or management.

There are a few notable problems with this strategy that programs of privatization must take into account.

First, if asset sale replaced public or state monopoly with private monopoly, without liberalizing whatever legal restrictions that prevent entry and competition, the efficiency argument for privatization would be meaningless.

Second, there is nothing inherent in the behavior of the private sector that prevents it from seeking subsidy or support from the government and thus there is no guarantee the government will stand strong against the newly organized private interests (Debebe, 1993).

Third, privatization affects employment levels; if the private sector efficiency considerations mean loss of jobs, then unemployment and displacement problems will add to the social problems the government must deal with. In such situations, the government is likely to respond by increasing social spending thereby negating whatever short-term benefits were created.

Fourth, assets sale strategy requires the existence of well developed financial or capital markets. In countries with the most extensive privatization programs, e.g. Great Britain, Japan, France, and Canada, this condition is met (Debebe,1993).

Fifth, the sale of SOEs through public offerings has serious valuation problems. It means that assets of SOEs would be disposed off at prices below their book values thereby creating extra profits for a few investors as they turn around sell off their shares. This would create serious distributional issues similar to those observed in Great Britain, France and in other Western Countries (Debebe, 1993). Distributional issues would also arise in the employee ownership scheme because the opportunity to invest in the enterprise is not open to non-employees.

Sixth, another risk, often expressed with this mode of privatization, is the tendency of management to distribute all profits to workers, retaining very little for investment, research and development, and expansion of the firm.

2.2 Contracting and Leasing

Contracting is a less visible form of privatization than asset sale. In contracting, the government uses private firms for the provision of goods and services. The private contractors will deliver goods and services to the government or to the public according to the terms and conditions specified in the contract. Contracts are usually awarded on the basis of competitive tendering. Private firms compete against one another to win the right to provide services offered by government. If the low cost providers win the bid, as should be the case, contracting will result in cost saving to the government.

2.3 Voucher Systems

Voucher Systems are mechanisms designed to increase the purchasing power of selected group of consumers. Under this scheme, the government distributes vouchers to eligible consumers so that they can purchase goods and services from private suppliers. For example, housing vouchers enable low income families to find better housing in the rental market. Another area where vouchers are being promoted as viable way of privatizing is in education. However, in both of the above cases, the vouchers do not have monetary value and are not tradable between individuals. In the context of privatization, the government distributes vouchers to the entire population or to a community on an equal basis to be used solely for the purchase of shares in a particular enterprise. The scheme envisages achieving a complete privatization within a relatively short period of time and avoids the difficult, costly and time consuming process that is associated with public offerings. The vouchers could either have monetary value or be tradable or they could be used only to bid for shares in a particular state enterprise. However a number of weaknesses can be identified with the voucher scheme. It dilutes the ownership structure, which limits the ability of shareholders to exercise effective control over the management of the enterprise.

Vouchers could also create macroeconomic problems if allowed to have monetary value and permitted to be traded among individuals. This could lead to a rapid expansion of the money supply thereby creating inflationary threat as people spend their newfound wealth on scarce consumer goods.

Vouchers, also tend to increase the public budget, which could further heighten inflationary threats (Debebe, 1993). In addition, vouchers are prone to result in fraudulent schemes ranging from theft and illegal redemption to counterfeiting. The government must continually monitor voucher programs to prevent corruption. The voucher system, although simple in concept, may not be a suitable strategy for developing countries as many governments are often in such serious fiscal distress that they could not raise sufficient resources to implement the voucher system without risking inflation. Even if sufficient resources could be mobilized, the people, in general lacks the know-how to monitor and control its management.

3. Privatization and Public Private Partnerships in Tanzania.

Privatization/Public Private Partnership of state-owned enterprises (SOEs) in Tanzania has been an essential part of the economic reform process that started in the 1980s. The rationale for privatization/Public Private Partnership emanated from the experience that in many countries, SOEs had not lived up to their development expectations. Due to many inherent problems, scarce resources were being less efficiently used, and their fiscal implications were growing. In response to these problems, the government gradually recognized the need to get out of economic activities that competitive markets do best than government interventions. This recognition got further drive in the year 2000 when the government, reduced its involvement further by pursuing partnership with the private sector in providing infrastructure, social services, and in protecting the environment. This approach greatly contributed to the process of re-balancing the respective roles of the government and the private sector in the country.

3.1 Legality (and or administrative framework) of the privatization through Public Private Partnership programme

As part of the ongoing reforms, the Parastatal sector reform policy was first pronounced as a national policy by the Government in January 1992. In the same year the government launched The Presidential Parastatal Sector Reform Commission (PSRC) to co-ordinate the implementation of the government's economic reform efforts in the form of privatization. Its fundamental objective was to give a sharper focus to the government's traditional role of maintenance of law and order and provision of economic and social infrastructure, ensuring a level playing field for efficient economic competition and balancing of economic and social activities as per **PSRC**[8].

Prior to 1992, SOEs activities in Tanzania were governed by two pieces of legislation, namely the Companies Ordinance of 1932 (Cap 212 of the laws of Tanganyika) and the Public Corporation Act of 1969 as modified by the Parastatal Organizations (Modification of Management Provisions) Act 1976 (PSRC, 2002).

Following the policy changes of the 1980s the SOEs legal and institutional framework had undergone considerable review. In April 1992, the Public Corporations Act of 1969 was repealed and replaced by the new Public Corporations Act 1992 to legalize private participation in the ownership of parastatals (PSRC, 2002).

In November 1993, the new Public Corporations Act was amended extensively to define the institutional framework and procedures for divestiture. Besides creating the PSRC, it outlined clearly the responsibilities and reporting

[8] Presidential Parastatal Sector Reform Commission, (2002) *An overview of the privatization policy and progress in Tanzania*. Available on http://www.psrctz.com accessed on 03/11/2015

relationship between the various agencies involved in parastatal reform as per PSRC, 2002[9].

The restructuring process is coordinated by PSRC which also acts as the representative of the Ministry of Planning and Privatization which is on the whole in charge of privatization in the country. The PSRC's role includes pre-qualification of bidders, evaluation of bid proposals, and negotiation with the winning bidder. The final decision regarding the privatization of the identified companies is made by the Cabinet of ministers under the chairmanship of the President.

3.2 Forms of Transfer

According to the prevailing privatization legislation, restructuring encompasses the direct privatization of an enterprise, creation of joint venture Company, or indirect modalities such as concessions or management contracts. Privatization/Public Private Partnership of SOE may take the following modalities (PSRC, 2002).

- Sale by public tender.
- Public offer of shares.
- Joint venture through an injection of private capital.
- Transfer or sale of shares to managers and employees.
- Granting of management or lease concessions.

3.3 The Public Private Partnership process.

Available statistics show that the country before privatization/Public Private Partnership had over 400 state operated enterprises of which 339 were commercial and 56 non-commercials while total of 266 have already been privatized as per Kigoda[10], 2003. Out of these, 138 enterprises are now owned 100% by Tanzanians; 20 are owned by foreign investors by 100% and the remaining 123 are owned in form of joint ventures between foreign investors, the Government and Tanzanian investors per PSRC[11], 2004. In the cases of joint ventures the Government retains a percentage shareholding, which eventually is off-loaded on the stock exchange for people to buy.

Before the enterprises being privatized, assets and liabilities had to be assessed. In addition PSRC had to establish guidelines as to which enterprises were strategic in nature and, therefore, should be preserved. Which were commercially

[9] Presidential Parastatal Sector Reform Commission, (2004) *Over 380 Parastatals Divested*. Available on http://www.psrctz.com accessed on 03/11/2015

[10] Kigoda A.O (2003) Tanzania Minister of State, Presidents' Office (Planning and Privatization). Budget speech on the Economic survey for financial year 2002 and proposal for Medium Term Plan and Expenditure Framework for fiscal year 2003/4-2005/6

[11] Presidential Parastatal Sector Reform Commission, (2004) Over 380 Parastatals Divested. Available on http://www.psrctz.com accessed on 03/11/2015

viable and selected for sale, which should be restructured and allowed to operate at least in the short run, and which were hopelessly indebted and/or inefficient and should be terminated as per **Temu[12], *et al.* 1999**. Once these decisions were made the ones selected for sale had to advertised, discussions undertaken with potential buyers, and memoranda of understanding (MOUs) drawn up and signed by the successful bidders. A year or longer often ensues after the MOU is signed as the terms have to be approved by persons in the parent Ministry and then by the Cabinet. The involvement of the cabinet is an indicative of the fact that the PSRC is not a one-stop centre but rather a coordinating body for privatization of SOEs. The full privatization/Public Private Partnership process, usually involves the Carrying out financial, commercial, technical and organizational appraisals.

Reviewing the appropriateness of the corporate structure to determine what changes might be needed to facilitate divesture. Appropriate measures may include dividing the parastatal into **components** which could include:

- Legal review in order to identify possible impediments.
- Preparing an initial valuation.
- Preparation of sale memoranda, proposals or any other suitable documents for targeted investors.
- Marketing the offer/inviting bids.
- Assessing the bids against pre- determined selection criteria.
- Negotiation.
- Obtaining final government approval for sale.
- Preparation of appropriate contractual documents.
- Effecting the sale.

Even though privatization needs a careful and systematic preparation, with attention being paid to details throughout, but the way the process is limits the speed which privatization can move and a number of enterprises that can be under consideration. The process should have been made shorter and quicker by eliminating some of the backstops which don't add or reduce value to the process.

3.4 Privatization performance of Public Private Partnership to date

A study by (Temu, *et al.* 1999) revealed that 56 percent of the former parastatals were sold as joint ventures with the government, generally taking over all or part of the debt as its share in the new company. Outright sale formed 33 percent and other forms 11 percent. Thus the largest percentage of privatization was in form of joint ownership with the government. The numbers of divested state operated enterprises have not changed from that of 1999 because of five main reasons.

Firstly, the parastatals that are likely to add value in the quickest time possible had already been sold leaving behind the ones with outdated technologies

[12] Temu A.E Temu A.A and Due J. M, (1999) Privatization in Tanzania, a case study. Dar es Salaam.

and worn out machinery and equipment, thereby calling for massive capital investment on plant and machinery.

Secondly, resistance from former employees to pressurize for payment of their terminal benefits. Many parastatals have court cases, over 170 cases are pending in court of law (Kigoda, 2004).

Thirdly, loss or "disappearance" of over 700 titles deeds belonging to parastatals. To date PSRC has managed to retrieve 400 titles so far. Efforts to trace the remaining 300 are continuing (Kigoda, 2004). But what surprises, is why should this be a problem because land owners are always provided only a copy of land title and original copy kept under the custody of the Registrar of Titles after being registered. This raises questions as to whether these enterprises were really built on surveyed plots as the land in Tanzania belongs to State then the government might not have seen the importance of surveying it because both land and enterprises belong to the same owner.

Fourthly, poor financial performance; SOE usually have a history of financial losses, are overstaffed, and are over burdened with excessive debts. This is why they are being sold in the first place. The problem is how to convince investors that a company has value when its financial records paint the opposite image. This has created a kind of hesitancy by the government causing various assets belonging to parastatals rotting or sold at what people call a throw away price.

Fifthly, immaturity of the private sector; the bulk of the private sector in the country consists of people who have been deprived of their first choice of employment, such as migrants from rural areas who fail to find jobs in urban centres. Others are people whose level of formal education and formal training is too low to help them secure employment in the public sector or those dismissed from public sector employment. Though recently there has been a tendency for even highly skilled and educated persons to quit the public sector jobs and start private business, but still the private sector can't be said to be full-fledged to undertake privatization challenges effectively.

Of the 400 SOEs in Tanzania, 266 had been divested as of June 30, 1999 and 299 by mid 2004 (Kigoda, 2004). However, of these 299, only 136 or 46% had been sold, while 115 or 38% had been liquidated, closed, or placed under Loan Advancement Realization Trust (LART) in the hope of some debt repayment, and the remainder leased or placed under management contracts (PSRC, 2004).

This research analyzed the pre and post performance of three privatized companies headquarted Dar es Salam, the capital city to determine whether the transfer to private ownership increase efficiency. The research constructed a time line of the operating results from the last two years of public ownership through two years after privatization. The analysis is undertaken on the back ground that prior to privatization existed SOE did very little to the economy. The statement from the Minister responsible for privatization in Tanzania proves this point *"the strategy to build a strong economy through the parastatal sector had reached the end of the road. Our decision to invite the private sector in the economy should* *not be construed that we had an ideological problem with the parastatal sector nor should it be implied that we were fanatically fond of the private sector. The truth is that parastatals had failed us and that they could not be relied upon to build a strong and sustainable economy. Had we decided to continue with the parastatal sector three quarters of our economy would now have been in terrible shape and this would have endangered the life and prosperity of our Party and Tanzania as a whole"*(Kigoda, 2004). To test its validity this research tested the performance of Tanzania Breweries Limited (TBL), Tanzania Cigarette Company (TTC) and Dar es Salaam International Airport Handling Company (DAHACO) in order to establish their level of operations.

However the study is limited to only a small number of (traded) firms. Thus it only to some degree overcomes the problem of obtaining beyond doubt comparable post privatization data for a large multi industry sample of companies. Although limiting a study to a relatively small sample would normally yield a serious sample selection bias, but that might not be the case in this study, for mainly two reasons. First, the sample selection includes the largest and the most significant enterprises in the country. Second, companies selected are the most noticeable and politically sensitive and it is the public's perception that, it is their post divestures performance that will determine whether the entire privatization programme as a success or a failure.

3.5 Companies briefs

3.5.1 Tanzania Breweries Limited

The company brews and distributes both canned and bottled beer, operating breweries in Dar es Salaam, Arusha, Mwanza and distributes its products via depots throughout the country. The industry is under management control of South Africa Breweries (SAB Miller Africa) as main sharer holders since 1993 and is registered in the Dar es Salaam Stock Exchange (TBL, 2003). Since privatization the company has destroyed the over thriving trade in smuggled Kenyan beer. However as a result of heavy investment in machinery and production the company has reduced its workforce from 3,000 in 1993 to 900 employees in 2003 in all plants per TBL[13], 2003.

3.5.2 Dar es Salaam International Airport Handling Company

Privatized in late 1990_s DAHACO[14] is now a private joint owned company between the government which holds 49 percent shares and Swissport International acquiring 51 percent of shares (Dahaco, 2000). The company operates at Dar es

[13] Tanzania Breweries Limited, (2003) *Company profile.* Available on http://www.sab.co.za accessed on 29/10/2015

[14] Dar es Salam International Airport Handling Company, (2000) *Dahaco Company profile.* Available on http://www.dahaco.com accessed 05/11/2015

Salaam and Kilimanjaro International Airports and provides all airport related services including passenger and baggage handling, cargo and mail handling, perishable cargo handling, surface transport of passengers and crews, security services for passengers, cargo and clearing and forwarding. The company has 418 employee compared to 440 before privatization (Dahaco, 2000).

3.5.3 Tanzania Cigarette Company

The company is private wholly owned by R.J. Reynolds International (RJR), a renowned tobacconist cum confectionary multinational company headquartered in Switzerland (TCC, 2002). It manufactures and distributes variety brands of cigarettes both within and outside of the country. The company inherited a labour force of about 800 employees during privatization time and has completed reorganization of the management systems and corporate structure from a parastatal system. Currently the company own 500 employees per TCC[15], 2002.

3.6 Efficiency, profitability and performance?

3.6.1 Profitability

The study results revealed that profitability increased after privatization, as measured by the return on sales which went up by 2.3 times. Profit margins also expanded during privatization for all firms except for the cargo handling company in year 2003 which might be due to effects of terrorism in East Africa region.

3.6.2 Operating efficiency

The greater emphasis on profit and the cuts in government subsidies following privatization can be expected to lead firms use their human, financial and technological resources efficiently. Efficiency measures used sales per employee and net income per employee. Both methods showed significant increases following privatization. Sales per employee have increased on average from Tsh, 161,114 before privatization to Tsh, 555,922 equivalent to 3.4 times after privatization and income per employee from Tsh, 3,623, to Tsh, 15,348 after privatization. The associated reason could be that privatization has substituted the multiple firms' objectives to the single objective of maximizing profit and exposure to the benefits and penalties of monitoring by capital markets. Management of the privatized firms can be said to focus more on raising revenues and lowering cost rather than expanding employment. (Ott, *et al*, 1991)

[15] Tanzania Cigarettes Company, (2002) *Company profile*. Available on http://www.ttc.com accessed on 31/10/2015

3.6.3 Investment levels

The study's results showed significant increases in the ratio of capital expenditures to sales up to 2.6 times after privatization. There are several reasons to expect as to why privatized firms increased capital spending after divesture. First, after their initial public trading, these firms gained greater access to private debt and equity markets than they ever had. Second, since privatization in Tanzania is accompanied by deregulation and market operations, the privatized firms generally must make large investments to compete with other private firms. Third, the removal of government control has set free enterprises from political strain, to overproduce economically wasteful goods and allows resources to be reallocated to higher value uses. Finally privatization promotes entrepreneurship, privatized firms have the incentive and means to invest in growth options such as launching new products and services or pursuing acquisition both at home and abroad. A good example of this exercise is the acquisition done by Southern Africa Airways (SAA), where Tanzania national airline (ATC) has become a subsidiary of the acquirer.

3.6.4 Employment and Output levels

The test showed real sales increased after privatization period. The steady swell in real sales proves that throughout this period firms were more aggressive at making sales. On the contrary, the most important finding in this study is that employment has actually decreased after privatization by an average of 807 employees' equivalent to 33.32 percent. This could be the major reason as to why majority of the people in Tanzania oppose privatization. On the other hand labour layoffs can't be used as a sufficient condition to assess privatization because workers used to be sent on compulsory unpaid leave even before the exercise started. The report by (PSRC, 2003) supports this fact by enlightening a number of public corporations which were closed prior to divesture which amounted to 78 as indicated in Appendix (A1). Probably this is one of the areas where further research could look into in order to come out with a clear answer to this problem.

3.6.5 Gearing and dividend payouts

Financial gearing occurs when a business is financed, at least in part, by contributors form outside parties. The level of gearing (that is the extent to which the firm is financed by outside parties) is often an important factor in assessing risk as per Atrill and Mclaney[16], 2002. Where a firm borrows heavily, it takes a commitment to pay interest charges and make capital repayments. This can be a significant financial burden and can increase the risk of being insolvent. Public enterprises have higher debt levels because they can't sell equity to private

[16] Atrill P and Mclaney E, (2002) *Accounting An Introduction* (2nd Edition). Pearson Edition Limited, Edinburgh Gate, Harlow Essex

investors and must rely financing or capital injection from the government per Oussama[17] 2000. The interest cover ratio, which measures the amount of profit available to cover the interest payable shows that the level of profit is considerably higher than the level of interest payable during privatization time. Thus a significant fall in profits could occur before profit levels failed to cover interest payable. The study also found that dividend payout to profit increased from 1.3 times to 2.52 times within the period of divesture. This indicated how comfortably firms could meet dividend out of their generated profits even if there were to be a downward spiral in profits. Generally the study has showed a great change among privatized firms in profitability, output per employee and capital spending. It also found that financial policies of these firms have started bear a resemblance to private entrepreneur companies with low leverage and higher dividend payout ratio. Although the data used didn't provide precise certification of the causes of these performance improvement after divesture this study rules out to the technological change coupled with better management as sources of profitability after divesture. The incidence of these improvements suggest that privatization in Tanzania has a strong effect in firm's operating and financial performance. Changes in executives and employee compensation policies may have given firm's workers incentives to be more productive.

From the test results it has been found that privatization has been a positive forces for change investors have improved management methods, people have been able to upgrade their skills and knowledge in terms of managing organizations. But why people are not happy about it?

3.7 Reasons as to Tanzanians reluctance towards privatization/ Public Private Partnership

There could be several good reasons for this such as job loss, non protection of national interests, foreign control, and ownership concentration by minority. However the remarkable ones are the following:

First, Tanzanian experience of privatization has been very limited (Temu *et al.* 1999**)**. For a long period of time, the country has only known public ownership of enterprises through SOE owned by the Treasury. The private sector concept is new to most people, particularly to employees of firms being privatized. To them the solution to solve the shortage of capital in an organization was to ask the government, the shareholder, to inject more capital to bail out the enterprise. Selling public owned property is seen as a betrayal of the past socialist policy.

Second, much of indigenous Tanzanians would wish to take part in buying shares of privatized parastatals, but most lack capital and know-how of business operations ending being mare observers.

Third, some top official of some parastatals earmarked for sale are probably enriching themselves before the whole exercise takes place.

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[17] Oussama K, (2000) Tanzania's Experience with Trade Liberalization. *Finance and Development,* Vol. 37; 2

Forth, to some companies previously privatized, already there are signs that salary gap has widened so much so that if you are a normal worker you can hardly compare your salary with that paid to top officials of the same company.

Fifth, the funds from which loans will be issued to ex-workers to buy shares in parastatals that are to be privatized have yet to be established. However, there have been some arrangements between the government and workers of some parastatals to sell shares to these workers by providing with loans and they will pay the loans gradually by deducting their monthly salaries. The procedure is called **Management Buy Out** (MEBO); this system has not started yet per Katunzi[18], 2003 or even if it starts employees salaries are too low to manage. It is also not regarded as leading to better corporate governance, increase in new capital and skills. This is what is regarded as a new wine in an old bottle. Another disadvantage is that it entails an element of arbitrariness and unfairness, a worker loses or gains depend on whether he happens to be in a "bad" or "good" firm. Furthermore, the use of this method may block further reforms if insiders prevent access to ownership by outsiders (who would bring new capital and skills) or the latter are reluctant to invest (because of insider control).

Sixth, inadequate county capacity to manage the privatization process; This has manifested it self inform of unreliable or inadequate business information related to buyers(investors), enterprises which are lined up for sale, treatment of huge debts in parastatals and difficulties incoming up with a free from ambiguity method of valuing existing assets.

Seventh, the social and economic changes in the country have witnessed a growing number of employed women in parastatals and the trend is likely to continue due to the fact that the country now has more educated women than before (Katunzi, 2003). It is also a fact that with privatization exercise a good number of them are likely to lose their jobs. On average female employees are often absent from work than male employees due to maternity leave. Maternity leave in Tanzania takes a total of 84 days off the job and the employer has to continue paying salaries for that period a female employee is absent. Such long time absenteeism will not be tolerated by an investor who is primarily interested in making profit. In the long run it can be one of the reasons of limiting women to more paying employments.

Though these issues are being addressed at the moment, what is crucial at the moment is to sustain this process and to accelerate the momentum the process has started and needs to be supported.

[18] Katunzi, J (2003) Managing change in Tanzania Public Enterprises: Swallowing bitter pills, *The IFM journal of Finance and Management. 2: 2*

4. So is the privatization/Public Private Partnership the solution to inefficiencies, profitability and performance of State Operated Enterprises (SOE)?

The central purpose of the study has been to understand the dynamics of privatization in the name of Public Private Partnership of SOE in Tanzania. In conceptualizing the study it has been noted that the performance improvement of three prominent companies in the country is the outcome of privatization in the name of Public Private Partnership. The study has been premised on the fact that SOEs prior to privatization were "sinking ships" or falling from grace. However the evidence in this study suggests that after more than five years of privatization exercise in the country their performances have improved.

The thrust of the evaluation has been on whether privatization presents a profitable policy in Tanzania. In other words, if there is any evidence of significant performance of SOE after privatization. The discussion was centered on the research aim and objectives raised in chapter one and the analysis undertaken in chapter four. The study has established the fact that the implementation of privatization in the name of Public Private Partnership in Tanzania has resulted into significant improvement in performance measured in terms of firms' profitability, operating efficiency, capital spending, output levels, gearing levels and dividend payouts. The improvements to a greater extent have been attributed by an injection of new capital, technological changes and better management. However, it is evident in the study that the three companies are essentially monopolies with essential control of the local market.

Based on the **secondary** information available, there is sufficient evidence to suggest that such performance can be replicated in other sectors of the economy. However there is no misgiving that privatization alone without targeted trade or industrial policies and investment incentives is unlikely to improve performance[19].The study has nevertheless established insufficient evidence to suggest that privatization can improve employment as argued by[20]. Perhaps it is too early to determine convincingly the long term impact of the privatization policy on employment. Because privatization in Tanzania has been one policy among many and has taken place in an economy making the transition from central to market economy, hence any evaluation faces difficulty. This area can be extended in a future research.

5. Conclusion

It is clear, countries like Tanzania cannot continue with the failed policies and strategies of the past (Komba, 1999). The future of the country's development

[19] Komba A.A (1999) *Structural change and Competitiveness in Tanzania's Manufacturing Sector*. George Washington University, Washington D.C

[20] Al-Homeadan A.M (2004) Privatization in Saudi Arabia: Is it time to introduce it into the public sector? *Journal of American Academy of Business Cambridge:* Hollywood. 4:1/2; 109

is, in part, shaped by the external forces and, to a greater extent, by its ability to change and create an environment for people to take charge of their economic life. Privatization in the name of public private partnership is one avenue for moving toward greater changes in theory and practice of development strategy. Time has come for privatization to be an integral part of the new thinking in the design of development strategy for the country. It is a viable instrument for introducing change and modifying future development strategies. It is a powerful economic force for setting free entrepreneurial talents which have been flourishing in the informal sector. It is this aspect of privatization that is important to the long term prospects for the country's economic development. However, the symbolic effect of privatization is not to be disregarded. The government is the steward of many of the important national legacies, such as parks and monuments that have meaning to a nation. To privatize these things would deny citizens a common ownership of them. Therefore, various forms of privatization must be carefully considered, as there is no single therapy for government's problems.

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