

Public Enterprises in Tanzania: Challenges and Prospects

Comments by Zitto Kabwe, CEOs Roundtable Dinner, 11th October 2011.

Members of the CEOs Roundtable, Invited guests, Ladies and Gentlemen.

It is a great honor for me to speak before this very important gathering. A gathering of wealth creators, jobs creators and tax payers who want to hear about a dead discourse, that is, the role of the Public Enterprises in an economy.

You kindly asked me to speak about how our Public Enterprises (PEs) are governed, accountability issues and management of public finance in Public Enterprises. It is not an easy topic as Tanzania has hundreds of PEs ranging from Crop Boards, Water Authorities to complex ones like TANESCO, Ports Authority, Pension Funds and The Bank of Tanzania. However, I will try my level best to explain the state of accountability in PEs, challenges and possible solutions.

Some Background

I think it is important that I adopt a United Nations definition of Public Enterprises, otherwise referred to as State Owned Enterprises (SOE). A Public Enterprise can be considered as an organization established by the government under public law (e.g. National Housing Corporation and Tanzania Petroleum Development Corporation) or private law (e.g. TANESCO), as a legal personality which is autonomous or semi- autonomous, produces/provides goods and services on a full or partial self-financing basis, and in which the government or a public body/agency participates by way of having shares or representation in its decision-making organs.

Although reduced significantly, PEs continue to have a major presence in the Tanzanian economy. According to the Treasury Registrar (TR) Statement of Government Investments there are **238 Public Enterprises** in the country. Government owns 166 PEs with majority of shares (more than 51%), 62 with minority interest (less than 50%) and 36 are Executive Agencies. This number of PEs increases when we add up 26 Urban Water Authorities as well as some new

PEs like National Identification Authority as well as National Social Security Regulatory Authority.

However, we have different figures of the total number of PEs from Office of the Treasury Registrar (TR) and those from The National Audit Office. The discrepancy is due to the fact that while TR produces all government investments into PEs and hence lists all, Controller and Auditor General (CAG) lists only those which submitted their Accounts for Audit. Hereunder is the table showing the differences. As you can note, since CAG doesn't audit entities with minority government interest and Executive Agencies like TANROADS and TRA which are audited together with their Ministries, the figure from TR must be bigger.

Analysis by TR and CAG

S/N	Category	TR	CAG
1	Water Authorities	2	28
2	Regulatory Authorities	35	35
3	Executive Agencies	36	-
4	Higher learning Institutions	25	25
5	Public Parastatals	39	39
6	Government Institutions	39	39
7	Government Investments with Minority Shareholding	62	-
	Total	238	166

National Investments into PEs

The Government of Tanzania has a total equity of 10.3 trillion shillings in State Owned Enterprises which is 30% of GDP at current prices in Shillings terms. Of course, there are a multitude of smaller PEs and few larger ones which constitute big portion of this total investment into PEs. For example 60% the investment is in ten corporations (with billions of investment in brackets) which are Bank of Tanzania (766bn), LAPF (218bn), PPF (722bn), NHC (1054bn), NSSF (1029bn), PSPF (732bn), RAHCO (197bn), TANESCO (907bn), TIB (108bn) and TPA (414bn).

You will recognize from the list that four of the ten biggest Parastatals are Pension funds and only three are critical service providing corporations which are TANESCO, TPA, and NHC. Important corporations like TPDC, TRL and ATCL are not seen in the top list because the government hasn't invested enough into them regardless of their importance. In ATCL the government has a negative equity of 13bn Shillings and negative 45bn Shillings in TRL.

Privatization

It must be recalled that in the early 1990s Tanzania embarked on a massive privatization process. Apart from the pressure put by institutions like the World Bank and IMF on our economy, privatization was also important as a means to counter corruption and mismanagement in PEs. Up until December 2009, 331 corporations were privatized; to date, 29 are still in the process of privatization.

Our government collected about 440bn Shillings from the privatization process but in some countries revenue collected from this kind of exercise was or is used for capital investments aimed at spurring growth, in Tanzania the money collected ended up as recurrent expenditure. Instead of investing we are **eating up our capital!**

And now, the government apportions money from its budget for capitalizing existing parastatals or guaranteeing loans. If the proceeds from privatization had been used to set up an investment corporation (a holding company) for purposes of capitalizing corporations needing capital investment and if this was done in a strategic way, the country would have benefited much from the privatization process.

Evidence from global research shows that countries that pursued privatization within a strategic policy framework for investment gained more from privatization compared to countries that approached it haphazardly and consequently only had partial or no gains.

Tax payers still pump money into PEs

In the National Budget of 2011/2012, the government has set aside about 61bn shillings for corporations' rescue as well as paying for corporations' contracts. This is tax payer's money which could have been put to better use if PEs were performing.

Alarming, the Government has guaranteed PEs more than 461bn shillings and given them loans to the tune of 478bn shillings as of June 30th, 2011. Some loans guaranteed like in the case of TANESCO that is servicing, huge amount of direct loans are going to be defaulted and more than 200bn shillings loans has been guaranteed by the government, lenders are going to call the guarantee. Some of these loans were politically motivated and beneficiaries are mostly in private sector. To end this abuse of public funds, Government loans and guarantees should be closely scrutinised for the purposes of protecting national interests.

What about dividends from the investments? Very little indeed. The Treasury collected dividends totaling 19.8bn shillings for the year ending June 30th 2011. Other revenues were loan repayments of 2.3bn shillings as well as remittances which totaled 6.6bn shillings.

This dismal performance of Public Investments is not heard in public discourse because many people believe that public corporations no longer exist. Meanwhile... Thus, it is incumbent on us to ask whether the country needs a large public sector.

Is it just bad news?

There are some indications that performance of PEs has recently improved especially since the Parliament formed an oversight committee dedicated to Parastatals in 2008. There are now public corporations paying their dividends timely, like the National Housing Corporation and Tanzania Standard Newspapers Ltd which in the year ending June 2011 paid 250m and 40m shillings respectively. Tanzania Ports Authority paid 2bn shillings and Bank of Tanzania paid 1.5bn shillings. However, a large proportion of dividends to the Government are paid by private companies with government minority shareholding like NMB Bank, Mbeya Cement, Airtel, Kilombero Sugar and others.

Pension Funds which form a quarter of total government investments in PEs are the most critical. They hold a huge amount of reserve and invest mostly in government papers(T-Bills, Bonds). According to the Economic Survey 2010, total Funds investments totaled 2.3 trillion shillings which is equal to 8.7% of GDP at current prices. Attempts by Pension Funds to lend to the private sector backfired as many loans were non performing. Investment in key strategic sectors of the

economy is a cornerstone of all Pension Funds in the world. I am a fervent supporter of this approach due to one simple economic fact: Funds collect contributions from members who are employees and employers, thus it is of interest to them to protect existing jobs and to see that more jobs are created as the economy grows..

For example, NSSF is venturing into power generation and a pipeline. Some people are worried. I understand their worries and fears. However, so long as NSSF does it carefully with an exit strategy, it will work. It has worked in other countries so why not here in Tanzania? Other Funds should direct their investment in other strategic sectors, sectors which drive the economy. A model of investing and exiting through IPO or private placement works best for Funds.

I understand the sensitivity of Social Security Funds and their money. The fact that these funds are 100% guaranteed as per their legislation calls for their strict oversight. And surely Social Security Regulator and the Bank of Tanzania do just that. But it is my opinion that five pension funds in an economy with just above 1m members to Funds is far too much. Tanzania can manage with only two Pension Funds - one for the Public Sector and the other the private sector and all of them accountable to the Ministry responsible for social security affairs instead of the current situation where Ministers have their own fiefdoms.

Regulatory bodies are performing well to be frank. They try hard to protect consumers from the predatory nature of the market economy. However from my experience of overseeing their performance I am of the opinion that we must start to strictly control their budgets. The Auditor General has repeatedly shown how these bodies mismanage their funds and these funds are charges on various services by customers of service providers. In 2008, my Parliamentary Committee had to probe funds provided by TCRA as a loan to Government for construction of Msata – Bagamoyo Road and rehabilitation of Mwanza Airport. Any right-minded person would have to conclude that such a regulator charges customers more than necessary.

TANESCO is a punching bag. It is given all manner of names. Calls for reforming it are all over, some even asks for its disbandment. To me TANESCO is a national champion. A company with a capital investment of close to a trillion shillings, with an annual turnover of 420 billion shillings (understated due to electricity

theft) but failing to deliver services is a paradox. But service delivery can be improved and we did that just three years ago. When TANESCO was removed from the list of companies to be privatized (specification), it was making a loss of 162 billion shillings a year. The new management of Tanzanians reduced the loss to just 5 billion and an managed an operational profit of 2 billion before it was forced to nullify the Dowans contract (which had only 5 months to end) and simultaneously denied the opportunity to acquire the latter's turbines by the same crop of politicians.

There are very valid arguments that TANESCO is too big and complex to manage. However the same arguments were made during the privatization of the National Bank of Commerce (NBC). What about bigger and much bigger corporations owned by the State?

Temasek, Singapore 19 – one of the largest State investment agencies owned by the State of Singapore; Baosteel, China 20 – one of the largest steel producing company in the world owned by the State of China (PRC); **EdF, France 21 – one of the largest power generating- cum-distributing company in France owned by the State – which is also one of the largest power generating companies in the world**; ENI Italy 23 – one of the largest energy groups in the world, owned by the State of Italy; also Oil & Natural Gas Corporation of India 24 which figures as the largest Indian company in FT 500, which is also owned by the State. Here in Africa we have Eskom, one the biggest firm at JSE and majority owned by the Government of South Africa. These are not the only examples of State Owned Enterprises (SOEs) which are also called Public Enterprises – which are managing huge operations with great efficiency in various developed and developing countries of the world.

TANESCO is our ENI as well as our EdF if not our Eskom. In the same vein, TANESCO cannot be a Tanzanian national champion and be able to deliver services efficiently domestically and within the region unless governance bottle necks are removed. The challenges facing TANESCO are the same as those being faced by other State owned corporations in Tanzania. This brings us to the challenges the nation faces in managing its Public Corporations.

Challenges

No Policy and strategy to guide Public Enterprises' role in the Economy

Tanzania has no Public Enterprises policy. As a result the government could not clearly determine the development contribution of PEs and rationalize their structure. In South Africa, for example, the government declared the goal of PEs would be to contribute to sustainable economic and social development. That is to attract FDIs, contribute to the reduction in public borrowing and assist in the development of an economy that promotes industrial competitiveness and growth and increased domestic saving. To achieve this South African Presidency reviewed the sector, developed policy guidance and formulated a strategy. It also formed a Ministry of Public Enterprises to rationalize the sector and offer strong oversight.

Due to the size of the Public Enterprises sector in the economy, Tanzania needs to formulate a PEs policy but before that we have to assess the sector. Lack of policy orientation leads to distraction and loss of focus and ultimately, failure.

Multiple Principals, Multiple Goals

You as CEOs know better, if owners of a firm are not clear about their goals they can hardly expect to achieve them. Managers of PEs in Tanzania are in a difficult situation as they have multiple principals often with conflicting goals. The CEO of TPDC, for instance, is accountable to the Ministry of Energy and Minerals, Ministry of Finance (Treasury Registrar), Parliamentary Committee for Energy and Minerals and Parliamentary Committee for Parastatals (the one I head). This same CEO reports also to the TPDC Board which is packed with politicians, some of whom are members of the same Committee the PEs are accountable to. And if a Parastatal is specified for privatization, you should add another institution, Consolidated Holdings. ATCL fits into the last and as a result no decision is taken because of bureaucracy.

In the private sector, I can without doubt argue that shareholders' overall objective is to maximize returns to their investments In Public Sector, you will have stakeholders in Government who would like to have efficiency while others want equity, and you can still have some who just want to enrich themselves through tenders or outright theft. Their interest is neither efficiency nor equity.

I have been arguing since I became the chairperson of Public Investments Committee (referred to as Public Organizations Accounts Committee – POAC) that we have to address this challenge by creating **the Office of Public Enterprises (OPE)** which will be responsible for government oversight of all PEs. It shall sign performance contracts (PCs) with PEs’ Boards and enforce them; Boards consequently must sign PCs with CEOs with clear goals and objectives. Office of Public Enterprises would be put under a specific Ministry responsible for PEs. Parent Ministries of PEs shall only be responsible for sectoral policy matter and not operational.

Appointment of the Members of Boards of Directors and Chief Executive Officers

Currently, Chairpersons of Boards of SOEs in our Country are appointed by the President while the members to such Boards are appointed by the Ministers of the Parent Ministries of such SOEs. At the same time, Chief Executive Officers of the SOEs are also appointed by the President, a situation which creates a battle for power supremacy since both parties are appointed by the same authority.

The best practice should have been for the Chief Executive Officers to be appointed by the Board of Directors instead of being appointed by the same appointing authority. The President should be left with the responsibility of appointing Chairpersons of the Boards of Directors after a competitive process while the appointment of Chief Executive Officers of such PEs should be the responsibility of the Boards of Directors.

Issues of Governance and Management in State-Owned Enterprises

The composition of boards of SOEs is an important issue.

Members of Parliament (MPs) are still serving as members in Boards of Directors of PEs which makes the functioning of the Boards of Directors to be impaired. We have been arguing about this time and again without any action. Most of the MPs appointed to the Boards are under qualified and there is no evidence that their presence in boards has helped to improve performance. Directorships and senior managerial positions in public enterprises is often viewed as political patronage positions for retired military and high level civil servants or for relatives and

friends of powerful political leaders. This nepotism must end if we really want to see PEs contributing to growth of the country.

Political interference and Corruption; PEs face continuing risks of political interference, of cronyism and corruption in their governance and operations. In Tanzania ineffective PEs not only have failed to contribute to development but have siphoned-off resources as I have stated above that could have gone to development activities, thus creating significant opportunity costs in our resource-scarce economy. The costs of continuing to subsidize unprofitable state enterprises have taken a heavy toll on the Treasury.

The on and off debate about the Richmond saga is a clear case of how political interference can cost a poor nation like ours. Had TANESCO been left alone on procurement of emergency power Richmond would never have happened. Moreover had TANESCO been left to finish its contract with Dowans company ICC wouldn't have penalized it. I hear fellow politicians thumping their chests and saying 'hatulipi' in a way that my friend Omar Ilyas calls 'blind nationalism'. We messed it up and this noise will not help. Had we listened to TANESCO's CEO Dr. Idriss Rashid, had we put aside our political ego and faced the reality, had we provided leadership and become pragmatic back then, the nation would not be bleeding now!

Ownership and management of Government interests in private companies

As stated earlier, the government has interests in a number of private companies. It owns 50% of BP (T) limited, 40% of Airtel (which is still registered as Celtel Tanzania Ltd), 29% of East African Cables, 25% of Mbeya Cement Ltd and 25% of Kilombero Sugar to mention just a few. These shares are badly managed by the Ministry of Finance and hence a radical proposal is needed. A National Investments Agency must be established to own and oversee government interests in private companies with a mandate to invest and divest. Currently all government interests are owned by Treasury Registrar. This office has proved to be as incompetent as the Ministry of Finance itself and is actually overwhelmed as it owns all Parastatals. Countries like Singapore with Temasak and Malaysia with Khazana have been very successful in managing government shares in private companies. My proposal would have been to transform Consolidated Holdings Corporation into a State Investment Agency to own and manage government interests in private companies.

Conclusion

The setting up of Public Enterprises in our economy in order to ameliorate the problem of “market failure” brought in “government failure” with its impact on “managerial failure” and other deficiencies in PE management. The challenges especially of governance must be addressed in order to achieve “Synergy” between the state and the market. The assumption that State has no role in economic activity and that markets do not fail - have both proved to be incorrect.

We have seen some PEs doing rather well in Tanzania and paying dividends, though not much. The paradigm of “synergy” between state and market achieved by China where they have opened up their economy for private enterprises without privatizing their PEs – can even be adopted in Tanzania with the corporations which exist.

I have tried to elaborate how our Public Enterprises are operating, challenges they face and some solutions to these challenges. It is possible to reform our PEs once there is a political will.

I would like to finish with the words of a former Malaysian Prime Minister, Dr. Mahathir Mohammad, who is my role model and a mentor on the importance of public sector and its ability to deliver quality services: **‘The quality of an effective government administration cannot be lower than that of its clients – specifically the private sector.’**

I believe in these words since Public sector must deliver, and I would ensure that once given a chance!

Thanks for your attention