

The Predicament of Managers of Public Enterprises in Tanzania

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Governments in the developing countries are resorting to the creation of public enterprises in an effort to promote economic development. The range, number and scope of the public enterprises differ depending on the economic circumstances and the ideological objectives of the leadership of each state. In Tanzania, following the country's Arusha Declaration on socialism and self-reliance in February 1967, public enterprises and public corporations, or parastatal organizations as they are called, have assumed an extremely important role in the nation's economic development effort. Public corporations in Tanzania are responsible for managing the entire economic sector which was brought under state control in the wake of the Arusha Declaration. They are expected to generate surplus for further capital expansion of the enterprises and economic development of the country as a whole.

In recent years, however, managers of public corporations and public enterprises have been severely criticized. First, there was an outcry in the local press that the public enterprises were draining the country's surpluses away to metropolitan countries through multi-national corporations with which they operated under various types of partnership agreements. It was also pointed out that because of this alliance with multi-national capitalist corporations, the management of public enterprises were perpetuating capitalist patterns of management in a country seeking to build a socialist society. These criticisms have led the government to tighten control of the management and operation of the public enterprises. More recently, however, it has also become evident that most of the public enterprises are operating at a loss. Unconfirmed reports suggest that the real output per worker in the modern sector, including parastatal organizations, has declined dramatically over the past five years. Also, while parastatal investment increased over four times, mainly through borrowing and government subventions, total parastatal surplus increased only 2.5 times over the same period. It is suggested that the performance of the newer parastatals has been very poor indeed.

This is the predicament, not only for the managers of public enterprises, but also for the nation as a whole. This article seeks to highlight the development of public corporations and public enterprises in Tanzania since the Arusha Declaration and to suggest some factors which have tended to inhibit productive operation of these enterprises. In particular the article

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looks at the external factors arising from the decisions of the government and the ruling party TANU as possible sources of this predicament.

GROWTH OF PUBLIC CORPORATIONS

The first post-independence industrial corporation in Tanzania was the Tanganyika Development Corporation, which was established by an Act of Parliament in 1962. There was also the Tanganyika Agricultural Corporation which was inherited from the British colonial administration and which was responsible for the development of ranches in Kongwa, Nachingwea and Urambo. In 1964 the two corporations were amalgamated into the National Development Corporation (N.D.C.), which was established by an Act of Parliament that came into effect on 1 January 1965. The N.D.C. is a wholly government-owned development corporation and was originally charged with the task of establishing and running profitable enterprises in industry, commerce and agriculture in order to facilitate and promote the economic development of the country. A section from the enabling Act of Parliament reads as follows:

In carrying out its business the corporation shall have regard to the economic and commercial merits of any undertaking it promotes, finances, develops, manages or assists and the economic position and potentialities of Tanganyika as a whole and shall use its best endeavours to ensure that its business as a whole is carried out at a net profit, taking one year with another.¹

Thus the N.D.C. was created to be run on a business basis. Its activities were to be guided by commercial considerations, using profitability of the undertaking as a criterion for measuring management efficiency.

In 1965 the N.D.C. took over from the government assets valued at nearly shs. 100 million, including investments and loans in 11 subsidiaries and 10 associate companies, as well as Tanganyika Agricultural Corporation ranching operations. In 1966 the activities of the Mwananchi Development Corporation, the economic wing of TANU, were combined with those of the N.D.C. The move added to the N.D.C. the capital investment of seven Mwananchi industrial projects.²

Just over two years after the N.D.C. was formed, the Arusha Declaration on socialism and self-reliance was announced by the ruling party. The Arusha Declaration rejects the dominance of foreign private enterprise in certain key areas of the economy. It states that socialism is to ensure that "the major means of production are under the control of the peasants and workers themselves through their government and their co-operatives".³ With the Arusha Declaration, industrial activities were divided into three categories:⁴

1. those to be restricted to complete state ownership, including banking insurance, major import-export houses, major grain mills and fire-arm industries;

¹ See The Tanganyika Development Corporation (Amendment) Act, 1964.

² National Development Corporation, *Jenga*, No. 10 (1971), p. 14.

³ *The Arusha Declaration and TANU's Policy on Socialism and Self-Reliance* (Dar es Salaam: Government Printer, 1967).

⁴ National Development Corporation, *Annual Report* (Dar es Salaam, 1970), p. 11.

2. state-controlled industries, which were categorized as major means of production. It is this category of industries and agricultural undertakings that was to be controlled through the N.D.C. or other subsequent public corporations. The public corporations could either develop these industries on their own or in partnership with private firms. The partnerships permit investment of up to 50 per cent of the equity by the firms concerned as well as provision of expatriate management personnel;
3. a category lying outside the sphere of state control, mainly small-scale business enterprises which were to remain open to private investment, including investment by the public corporations.

The Arusha Declaration thus resulted in the creation of public financial and investment institutions and state-owned firms and an enormous expansion of state-controlled industries. The National Development Corporation acquired ownership of a majority of the shares of seven foreign-owned firms, namely:

1. Tanzania Breweries Ltd.,
2. Kilimanjaro Breweries Ltd.,
3. B. A. T. (Tanzania) Ltd.,
4. Tanzania Portland Cement Co. Ltd.,
5. Metal Box Co., Ltd.
6. Tanzania Shoe Co. Ltd.,
7. Tanzania Extract Co. Ltd.

By 1971 the N.D.C. had 50 subsidiary and associate companies. Investment rose from shs. 24 million in 1965 to shs. 233 million at the end of 1970.⁵

The enormous expansion of the N.D.C. after the Arusha Declaration and other problems of management and control of public enterprises led to a reorganization of parastatal institutions in 1969.⁶ Under the new arrangements the N.D.C. was to confine its activities in the fields of manufacturing, processing and mining. Two new corporations were created to take over some of the activities of the N.D.C.—the Tanzania Tourist Corporation, to look after the management of tourist hotels and related activities, and the National Agriculture and Food Corporation, to take over ranching. Other corporations like the Tanzania Sisal Corporation, the National Housing Corporation and the State Trading Corporation also acquired well defined spheres of activities. Each public corporation was also given a parent ministry to ensure closer co-ordination with government policy and development strategy. In 1971 the Tanzania Wood Industries Corporation was created to take over the N.D.C. timber industry, and in 1973 the State Mining Corporation was established, to which the N.D.C. mining activities were transferred.⁷

⁵ National Development Corporation, *Jenga*, No. 10 (1971), pp. 14-15.

⁶ Public Corporation Act No. 17 of 1969 and Presidential Circular No. 2 of 1969, *Rationalization of Parastatal Organizations* (Dar es Salaam: The State House, 1969).

⁷ National Development Corporation, *Jenga*, No. 14 (1973), p. 40.

MANAGEMENT PROBLEMS

A number of criticisms have been made concerning the operation of public corporations and public enterprises in Tanzania. Most criticisms have focused on the pattern of linkages or partnership between the public corporations and the foreign private firms, the latter being subsidiaries of multi-national corporations. It has been pointed out and in some cases documented that through partnership agreements and management contracts with foreign firms, surpluses from the joint enterprises have been draining away to the metropolitan countries. The drain of surplus occurs through the mechanisms of share acquisition, excessive salaries and management fees for expatriate staff, royalties, patent rights, annual dividends and over-invoicing of capital funds imported by the management.⁸

The basis on which a partnership is established, taking the Arusha Declaration guidelines into account, varies according to negotiation between N.D.C. and the potential partner. In establishing complex industries involving a capital investment such as the fertilizer plant and the proposed sisal pulp plant, N.D.C. hires a firm to act as technical consultant—conducting extensive industrial tests, market surveys and feasibility studies. Sometimes a second consultant is hired to evaluate or do a completely new study. The technical consultants may invest in the equity of the new company, taking a minority shareholding and continuing to supervise technical aspects of production. This was the case at Mwanza Textiles Ltd., with French consultants, Tanzania Bag Corporation, with Italian consultants, Tanzania Tanneries Ltd., with Swedish consultants, as well as other projects.⁹

The problems of management contracts in part arise because of a shortage of indigenous business managers in the country. Because of this shortage, the N.D.C. is forced to rely on managing agents supplied by the group companies themselves. Furthermore, each of the companies in which the N.D.C. owns shares exists in its own right and not as a branch of a centralized firm. Indeed some of these companies have their own subsidiaries and associate companies. Separate boards of directors exist for each of the companies which are scattered all over the country. These boards include the General Manager of the N.D.C. as chairman. The N.D.C. directors and heads of department responsible for the operation of the affiliated companies are also members of the board of directors of each of the companies. Political and trade union leaders are also appointed to the boards of companies, including senior government officials from the parent ministries. Non-partners, both local and foreign, associated with any of the companies also have their own nominees to the boards.

The N.D.C. itself has its own Board of Directors under the chairmanship of the Minister for Commerce and Industries. The Board consists of

8 See Issa G. Shivji, "Tanzania: The Silent Class Struggle," in Lionel Cliffe and John Saul, eds., *Socialism in Tanzania*, Vol. 2, *Policies* (Dar es Salaam: East African Publishing House, 1973), pp. 304-330; Issa G. Shivji, "Capitalism Unlimited: Public Corporations in Partnership with Multi-national Corporations," *The African Review*, III, 3 (1973), pp. 359-381; Andrew Coulson, "Blood-sucking Contracts," (Department of Economics, University of Dar es Salaam, 1972).

9 National Development Corporation, *Jenga*, No. 6 (1970), p. 41.

not less than five or more than nine members appointed by the Minister for Commerce and Industries.¹⁰ These are mostly overworked heads of other institutions, including the Principal Secretaries of the Treasury and the Ministry of Economic Affairs and Development Planning. The General Manager of the N.D.C. is appointed by the President.

The government is aware that the boards of directors are relatively weak in controlling the operation of the managing agents of various public enterprises. In recent years a series of additional measures have been instituted to tighten up control of both the public corporations and the public enterprises.¹¹ All investment programmes of parastatal organizations have to be approved both by the parent ministries and the Ministry of Economic Affairs and Development Planning, to ensure that they are consistent with government development priorities. Management contracts drafted by the public corporations and their foreign partners have to be approved by the Economic Committee of the Cabinet after being scrutinized by the standing Committee on Parastatal Management Agreements.¹² All the payments involving foreign exchange, including import licensing, have to be approved by the Bank of Tanzania. In September 1967, the government set up a standing Committee on Parastatal Organizations with power to co-ordinate and regulate the terms and conditions of service for all parastatal organizations.¹³ Since 1972, all the surpluses which public corporations generate annually have to be paid in a common fund, to be allocated by the Treasury on the basis of an approved investment programme. In addition, most of the loans and grants which are procured from overseas for capital development go to the Treasury and the Tanzania Investment Bank. These funds are then lent to public enterprises and have to be paid back with interest.

Another major criticism of public corporations and enterprises has focused on management styles which operate in these companies. It has been alleged that partly because of the presence of foreign capitalist management in most of the public enterprises, no effort has been made to develop socialist management ethics in the public economic sector. President Nyerere explained the issue clearly as follows:

When we first began to own industrial and agricultural enterprises as a community, and especially when we expanded public ownership so rapidly after the Arusha Declaration, we inevitably... and rightly concentrated first

10 National Development Corporation (Establishment) Order, 1969, Government Notice No. 90 of 1969.

11 V. N. Carvalho, "The Control of Managing Agents in Tanzanian Parastatal Organizations with Special Reference to N.D.C.," *Eastern African Law Review*, V, 1 and 2 (1972); Peter Ncerso, "Tanzania's Policies on Private Foreign Investment," *The African Review*, IV, 1 (1974), pp. 61-78.

12 The Special Committee on Parastatal Management Agreements consists of representatives from the Treasury, Tanzania Legal Corporation, the Bank of Tanzania and the Tanzanian Audit Corporation. See Carvalho, "The Control of Managing Agents in Tanzanian Parastatal Organizations with Special Reference to N.D.C.," *op. cit.*

13 The Standing Committee on Parastatal Organizations consists of the Principal Secretary to the President as Chairman, and Principal Secretaries to the Treasury, Central Establishment, Ministry of Economic Affairs and Development Planning, Ministry of Commerce and Industries and the General Managers of the N.D.C. and the National Bank of Commerce.

on the sheer mechanics of setting up, or taking over, economic concerns. We therefore followed in our public enterprises the same work customs as we had learned from the traditional capitalist enterprises.¹⁴

This is part of the opening statement of President Nyerere's directive on the establishment of workers' participation in the management of public enterprises in 1970. Despite this directive, however, and the formation of workers' councils in industrial enterprises, not much progress has been made in developing socialist management techniques that are consistent with industrial discipline.¹⁵

The Presidential Circular No. 1 of 1970 gave emphasis to the need for management to pay heed to workers and to include workers' interests in decision-making by the management. The Circular directs that workers' councils be set up in all public enterprises to advise on wages and production targets as well as other matters of concern to the workers. The Presidential Circular also directs managers of parastatal organizations and public enterprises to set up executive councils with powers to advise the general managers on matters pertaining to workers' interests and day-to-day operations of business enterprises. It reaffirms that boards of directors are responsible for policy, and by implication, the executive councils are to act as intermediaries between workers' councils and management. In 1973 the standing Committee on Parastatal Organizations directed that workers' representatives be included on recruitment committees of parastatal organizations and public enterprises at a ratio of three to two in favour of workers when recruiting expatriates. It is no secret, however, that this directive on the hiring of expatriates has not been complied with in many of the public enterprises.

There is also political control of the public enterprises from TANU, the ruling party. In addition to directing that all public enterprises set up TANU branches in their work establishments, the Party in 1971 issued a major *Guidelines* (Mwongozo) which had a far-reaching impact on industrial relations in the public enterprises. The Party *Guidelines* asserted that

the conduct and activities of the parastatals must be looked into to ensure that they help further our policy of socialism and self-reliance. Those activities of the parastatals should be a source of satisfaction and not discontent. The Party must ensure that the parastatals do not spend money extravagantly on items which do not contribute to the development of the national economy as a whole.¹⁶

The most relevant section of Mwongozo is perhaps Clause 15, which in part reads as follows.

Together with the issue of involving people in solving their problems, there is also the question of the habits of leaders in their work and in day-to-day

14 Presidential Circular No. 1 of 1970, *The Establishment of Workers' Councils, Executive Boards and Boards of Directors* (Dar es Salaam: The State House, 1970).

15 See Henry Mapolu, "The Organization and Participation of Workers in Tanzania," *The African Review*, II, 3 (1972), pp. 381-415.

16 See *TANU Guidelines* (Mwongozo) (Dar es Salaam: Government Printer, 1971), Clause 33.

life. There must be a deliberate effort to build equality between the leaders and those they lead. For a Tanzanian leader it must be forbidden to be arrogant, extravagant, contemptuous and oppressive. The Tanzanian leader has to be a person who respects people, scorns ostentation and who is not a tyrant.¹⁷

Throughout the next two years following Mwongozo there was a wave of industrial labour unrest in the country. Workers in parastatal organizations, public enterprises and private companies staged strikes, petitions, lock-outs, downing of tools, etc., seeking dismissal of certain management personnel, particularly those in charge of personnel matters. The alleged grievances of the workers were that the managements were perpetuating colonial mentality and unbecoming behaviour. It is reported that at least eleven parastatal organizations and twelve private companies were affected by serious labour unrest between 1971 and 1973.¹⁸

The consequences of the Presidential Directive on the formation of workers' councils, together with Mwongozo, have been to weaken the power of the management of public enterprises vis-à-vis the workers. This in part led to low productivity of both labour and management in most of the public enterprises. The situation is unlikely to change until the workers acquire a sense of industrial discipline which alone can lead to effective self-management organizations in industrial enterprises.

CONCLUSION

Public corporations and public enterprises in Tanzania are government instruments for ownership and management of the nation's economy. The purpose of this article has been to show the political context within which these public enterprises operate. In particular, the article has sought to show how the government and the Party have moved to control the organization and operation of public corporations in the country so as to ensure that their economic activities are consistent with government policies.

The managers of Tanzanian public corporations and public enterprises have very little autonomy in running the commercial enterprises. Because of the rapid politicization of the society, resulting in the creation of workers' councils, workers' committees and TANU branches in public enterprises, the managers lost part of their powers in defining the day-to-day operational activities of the enterprises. Government control over public corporations has manifested itself in the service-composed standing Committees on Parastatal Organization and Parastatal Management Contracts and the concept of a parent ministry for every public corporation, as well as the Economic Committee of the Cabinet. The very nature of their composition and their hierarchy in government organization suggests the effectiveness of government control over the public corporations.

Public corporations do not have the power to fix prices for the commodities of the enterprises they operate. They have no power to raise or lower

17 *Ibid.*, Clause 15.

18 See J. V. Mwapachu, "Industrial Labour Protest in Tanzania: An Analysis of Influential Variables," *The African Review*, III, 3 (1973), pp. 383-401.

the wages of the workers they employ. All these matters are determined by the government. But the manager of a public corporation or enterprise can be dismissed unceremoniously by the government because of alleged inefficiency. He can also be locked out of his office by the workers for alleged unbecoming behaviour, but he cannot even fire a sweeper or copy typist without going through a long process of appeals to the various workers and government bodies. The managers of public enterprises and public corporations in Tanzania have administrative responsibility for managing public enterprises without the requisite authority to do so effectively. A realistic assessment of the performance of public enterprises in Tanzania should take into account these external factors which no doubt condition the operation of these enterprises.

Workers' Participation in Management in Tanzania: A Background

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The policy decision to involve workers in the management of enterprises in Tanzania was made and announced in February 1970 in the form of Presidential Directive.¹ Even now the entire programme is based on the implementation of this Directive. The Circular directs, among other things, that "every public corporation or firm employing more than ten workers is to establish a workers' council."

The Security of Employment Act of 1964 had established "workers' committees", but these appear to have been established primarily to *defend* the employee as a worker. The workers' committees dealt, for example, with such matters as conditions of service, warnings and dismissals. The establishment of workers' councils, however, was aimed at enhancing the worker's role in management. It directed the public corporations and firms to re-organize their executive committees and boards of directors in such a way as to give practical effect to workers' representation and participation in planning, productivity, quality and marketing matters.

In this article we shall first discuss the concept of workers' participation in its historical context. We shall then examine the application of the principle of participation in independent Tanzania.

THE CONCEPT OF PARTICIPATION

The idea of workers' participation in the management of enterprises can be found in both socialist and capitalist systems of management. The philosophical basis of employees' participation consists of four main propositions:

1. that such participation is essential to redress the balance of divergent interests in the existing social order;
2. that workers' participation is an expression of human rights—here the emphasis is placed on the moral dignity of human labour and the ethical objection to its being treated as a mere instrument or tool;
3. that men are happy in work if they have some insight into what is going on—the main purpose here being to serve man's psychological needs, primarily because failure to meet them will reduce the workers' willingness to work, thus reducing profits; and finally
4. that workers' participation is essential for efficiency, because workers do have ideas which management can make good use of, and also

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¹ Presidential Circular Number 1 of 10 February 1970.