PRIVATIZATION PROCESS AND ASSET VALUATION

A case study of Tanzania

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Doctoral Thesis in
Building and Real Estate Economics
School of Architecture and the Built Environment
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Stockholm
2008

Thesis for the degree of Doctor of Technology to be presented with due permission for public examination and criticism at F3, Lindstedtsvägen 26 at the Royal Institute of Technology on 18th April 2008 at 13 pm.

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SE-100 44 Stockholm

Printed by Tryck & Media, Universitetsservice US-AB, Stockholm

ISSN 1104-4101
ISRN KTH/BFE/M--08/80--SE
ISBN 91-975984-8-8

Abstract

This study examines privatization and valuation processes in the context of privatized state owned enterprises in Tanzania. It investigates the implementation of the privatization process and valuation methodology in a developing economy where the market system and its associated institutions are not fully developed.

The objective of this study is twofold, first to investigate how the privatization process was carried-out towards the stated objectives and second to find out how asset valuation was carried-out in assisting decision-making at the ‘Presidential Parastatal Sector Reform Commission’ (PSRC).

As a means to achieve the above objective, the study traces five interrelated aspects in the privatization process. The tracing attempted to find out whether or not the five aspects proceeded in ways that enabled attainment of the stated objectives. The five interrelated aspects included, Formulation of privatization strategy; Valuation methods; Valuation error; Buyers of State owned enterprises and Developments after privatization.

The study found that strategy formulation being undertaken by PSRC did not promote higher competition, higher prices and higher government revenue; the present Valuation methodology as used by the Valuation firms engaged by PSRC did not improve certainty in the determination of reserve price; further that valuation estimates were not good proxies of sale prices; the issue of wider ownership participation by the people was far from being achieved; And that follow-up on changes of ownership and changes in the physical developments was lacking.

Both privatization and valuation stand to yield expected results where the market system and its institutions are well developed and are functioning properly. Had there been reasonable and basic preparations prior to take off, privatization process in Tanzania could have been carried out in better ways and yielded better results than it is now.

Keywords: Privatization process, strategies for privatization, valuation methods, valuation error, indigenization, aftermath of privatization.

Acknowledgement

My foremost gratitude goes to my employer, Ardhi University for facilitating sponsorship through SIDA – Sarec programme and availing an environment that enabled me pursue the PhD programme.

I am deeply indebted to my major supervisor, Professor Hans Lind at KTH whose invaluable patience, intellectual guidance, and wide research experience ensured completion of this study. My sincere appreciations should also go to my second supervisor, Professor Humphrey P.B. Moshi at the University of Dar Es Salaam for his moral support and dedication at the moulding stage of this study. My special thanks goes to Professors at KTH who conducted various graduate courses that formed a foundation to this study, specifically Professor Hans Mattsen, Professor Thomas Kalbro, Professor Jerker Lundequest and professor Dick Urban Vestbro for co-ordinating the program. Similarly, much appreciatio go to the University of Dar Es Salaam Computing Centre that played a crucial role in imparting a statistical knowledge that enabled me analyse the data.

I have been so much priviledged as a researcher to have had so much data from PSRC, National investment centre, Bank of Tanzania, Natonal bureau of statistics, World bank offices in Dar Es Salaam, Registrar of companies, Ministry of commerce and Industries, Ministry of Finance, Ministry of planning and Privatization and all privatized state owned enterprises appearing in this study. To all those individuals in these institutions who availed data to this study, I say stay blessed.

My dear field assistants, Caleb Bunini, John Mabula, James Kimaro and Juma Mgosi who tirelessly visited offices of various government ministries and departments, privatized firms and valuation offices, God bless you all.

My colleagues at the Royal Institute of Technology (KTH) offices and common rooms, at the Land management & valuation department and Ardhi University at large, you all have a hand and place towards the success of this study. You all deserve showers of blessing from our almighty God.

Lastly, I am lovingly indebted to my parents, wife, children, brothers and sisters who missed my presence in several family occassions and persevered throughout the years of this study. I pray that you all pass-over this spirit of solidarity and self denial to our future generations.

Not withstanding the above mentioned, all errors and mistakes that may happen to appear in this document are genuinely mine and I therefore take full responsibility.

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List of Abbreviation

PSRC	-	Presidential Parastatal Sector Commission
OECD	-	Organization for economic cooperation and Development
GDP	-	Gross Domestic Product
GNP	-	Gross National product
MOA	-	Memorandum of Agreement
SMART	-	Specific, Measurable, realistic and time bound
UN	-	United Nations
SOE	-	State owned enterprises
TIVEA	-	Tanzania Institution of Valuers and Estate Agents
NCPS	-	National Council of Professional Surveyors
MEBO	-	Management Employee Buy-outs
FDI	-	Foreign Direct Investment
LART	-	Loans Advances Realisation Trust
TIAVSC	-	The International Assets Valuation Standards Committee
RICKS	-	Royal Institution of Chartered Surveyors
UK	-	United Kingdom
USA	-	Unites States of America
UCLAS	-	University College of Lands and Architectural Studies
IVSC	-	International Valuation Standards Committee
DRC	-	Depreciated Replacement Cost
USSR	-	Union of Soviet Socialist Republic
ESOP	-	Employee Share ownership schemes
CCM	-	Chama cha Mpinduzi
DSE	-	Dar es Salaam Stock Exchange
TISCO	-	Tanzania Industrial Studies Company
NEDCO	-	National Estates and Designing Company
KIUTA	-	Kiwanda cha Uchapaji Tanzania
HANDICO		Handicraft Company
NTC	-	National Transport Company
USD	-	United States Dollar
TTCL	-	Tanzania Telecommunication Company Limited
NICO	-	National Investment Company

CHAPTER ONE
BACKGROUND TO THE STUDY

1.0 Introduction

The study is about privatization and valuation processes in the context of privatized state owned enterprises in Tanzania. It investigates the implementation of the privatization process and valuation methodology in a developing economy where the market system and its associated institutions are not fully developed. So, how privatization and valuation processes fare in a developing country like Tanzania is the focus of this study.

1.1 General background to privatization

The term 'privatisation' represents both narrow and broad meanings. In the narrow sense it simply means a shift of productive activities from the public sector to private sector ownership and control. On the other hand, the broader meaning refers to a process by which the role of a government in an economy is restricted, while that of the private sector is deliberately expanded (Young, 1991) (Hemming et al, 1988) (Cook et al, 1996) (Bremeir, 1996). This study is concerned with the narrow meaning of privatisation, that is, change of ownership and control from state sector to private sector.

The earliest and powerful theoretical basis guiding privatization of public enterprises could be traced back to a famous work ’wealth of nations’ by Adam Smith (1937). He wrote that managers of other people’s business could not well be expected to strive to maximize profits with the same anxious vigilance with which partners in a private firm frequently strive to do. This is because without ownership stake, an employee manager is not entitled to most of the profits generated through efficiency. Therefore negligence and profusion is most likely to prevail in the management of the affairs of other people’s property.

It is thus clear that privatization theory has its origin from the neo-classical economists, who desire less government intervention in the economy and believe in superior performance of the private sector (Tanyi, 1997; Welch, 1998; United Nations, 1993; Sonko, 1994). According to neo-classical economists, a free-market economy without state intervention will lead to economic prosperity that will 'trickle-down' to the poorest members of society. Government intervention in the economy is considered unnecessary and harmful to the economy because it acts as a braking mechanism on economic progress. Privatization was developed within this framework of neo-classical economic theory that advocates liberalization of the economy and the restriction of the state role in the economy.

The recent history of privatization as an economic policy can be traced back to mid 1960's. Since then nations in various parts of the World have sporadically implemented privatization as an instrument of development strategy. For instance, in 1966, Ghana under the influence of the World Bank privatized a considerable number of state owned firms (Young, 1991). However, the introduction of privatization on a mass scale is of comparatively recent origin, being first introduced in Britain under Prime Minister Margaret Thatcher in the early 1980s, and from there it spread into the developing countries, Tanzania inclusive under the umbrella of the IMF and World Bank conditional ties before any loans for structural adjustment programs could be secured.

Privatisation is now a fact of life almost everywhere in the world. Since early 1980's more than 11,332 state enterprises have been privatised world-wide, out of which 78% were from Eastern Europe, 2% were from OECD[1] countries, 12% were from Latin-America and Caribbean countries, 5% were from Sub-Saharan Africa, 2% were from Asia, and 1% were from Arab countries (Sonko, 1994) (Kumssa, 1996). Up to the end of 1996, just over 2,700 transactions were reported to have been completed, with a combined sales value of almost US dollars 2.8 billion for the entire Sub-Saharan Africa.

Some scholars are of the view that privatisation is inevitable because of the poor performance of the state enterprises, which pursue political objectives versus efficiency maximization (Brada, 1996). Explanation for public sector failure in Africa include among other things: ambiguous and sometimes conflicting objectives, political interference, rotation of managers between organizations, use of unsuitable public service procedures for commercial operations, lack of competition, existence of weak private sector, international price decisions, overstaffing, under-capitalization, high debt/equity ratios, inadequate incentives, failure by governments to pay for services rendered etc (Blunt, 1992).

Other scholars hold a different view on how to improve performance of the state owned enterprises. Kumssa (1996) recommends that sub Saharan African countries should consider reforming their public enterprises instead of resorting to hasty privatisation policies. To support his argument he gives an example of the success story of the National railways of Zimbabwe that was reformed instead of being privatised as reported by the World Bank in 1994.

In compliance to the structural adjustment programs' conditional ties as prescribed by the World Bank and the International monetary fund the government of Tanzania made a decision in 1992 to reverse and improve the declining performance of the state owned enterprises through privatisation. It is therefore not possible at this point in Tanzania to abandon privatisation and switch over to reforms as an alternative to privatisation as advocated by some scholars who are unhappy with the ills associated with privatisation (Kumssa, 1996; Brada, 1996; Deme, 1997; Rondinelli, 1996). We are therefore left with

[1] Organization for economic cooperation & development formed in 1961. Members are all industrialised countries of western europe, Australia, Japan, Newzealand & USA. Its headquarters in Paris.

one option namely, to find-out how best to implement privatisation, and this is the focus of this study.

1.2 The developments in Tanzania: nationalization and privatisation

1.2.1 Nationalization of private enterprises

During the first decade of Tanzania's political independence from the British rule (1960-70), the need to form Public Enterprises (Parastatals) was based on the argument that the then private sector lacked both the capacity to generate the needed economic growth and to efficiently allocate resources in a young economy. Following that argument, the state assumed a leading role in entrepreneurship through mass nationalization of private businesses in 1967 and creation of new public enterprises. Ultimately, growing, leading to a figure of 425 parastatals by 1990, up from only three in 1960 (PSRC, 1993).

At first the performance of the parastatal sector was encouraging so that by the early 1970`s output grew by 5.1% per annum. By mid 1980´s a period of steady decline in parastatal sector performance had set in so that the explicit and implicit fiscal losses had exceeded 7% of the GDP by 1987. In order to survive, the parastatal sector heavily relied on borrowing and the government subsidies (PSRC, 1994). The above situation could not be tolerated any longer, hence need for reform measures and policy changes became a necessity. One of the policy changes was the promulgation of the privatisation policy.

1.2.2 Privatization of state owned enterprises

The Parastatal reform programme is set firmly in the context of the broader reforms, which were introduced from the mid 1980s onwards, once it had become clear that previous policies had delivered very disappointing results. The gradual liberalisation of internal and external trade, of agricultural marketing, foreign exchange transactions, prices, interest rates and of the financial sector has led to greater reliance on individual initiative and corporate accountability rather than on Government as a decision-maker on business matters. Tax reform and civil service reform are further components that reflect changes in the role of Government under the adjustment programme (PSRC, 1993).

Parastatal reform efforts aimed at reducing Parastatal dominance and promoting a larger role for the private sector, while improving parastatals' use of resources. Movement towards these goals is supported by components of a Structural Adjustment loans from the International Monetary Fund and the World Bank, which helped initiate the programme and establish the legislative and institutional base.

Sources within PSRC believe that even in the absence of the broader adjustment context, however, it had long been clear that Parastatal reform was needed and indeed was unavoidable. Consumers, farmers and manufacturers were being poorly served by many parastatals; the State as owner was not getting proper or even any returns from past investments and assets were being misused. Yet, some observers doubt the need for change. It is worth reiterating the four main pragmatic points which drive the Parastatal reform programme namely, the original objectives of State ownership have largely been achieved; the cost of achieving them has been immense and cannot be sustained; opportunities for new investment and new ideas are being missed by public sector firms pre-occupied with survival; and assets were being misused. These four points are examined in much more detail in turn (PSRC, 1994).

First, the original objectives of state ownership were to ensure that the corporate sector of the economy was in national hands rather than being controlled by either foreign investors or the minorities that enjoyed business dominance upon independence. A further objective was to use investment in State firms to accelerate development in a situation in which private sector was reluctant to take risks. From three firms in Government hands upon independence in 1961, the numbers rose by a combination of nationalisations and new start-ups to 43 in 1966 and 380 in 1979 and kept rising thereafter. When the privatisation exercise started, virtually all-Parastatal management was indigenous; the Parastatal sector had a cadre of several thousand qualified and experienced professionals who account for a sizeable proportion of the output of the higher education system. They are well able to take the corporate sector forward in years to come. In addition, over the past decade especially, there has been a dramatic diversification of ownership in the private sector with vigorous growth of new entrepreneurship being seen in construction and housing, manufacturing, mining, transport, agriculture and many service industries. Moreover, Government and the legal profession are well able to negotiate on equal terms with multinationals and other private investors without the fear of exploitation that once existed. Indeed, the intended policy result of achieving national control had been achieved (PSRC, 1994).

Second, the cost has been immense and is continuing. 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 suffers explicit and implicit fiscal losses that may exceed 7% of GNP a year, almost half the level of new investment in the country. Maintaining jobs can often cost around Tshs 2, 3 million per job per year. Even the most profitable parastatals, like the Tanzania Cigarette Company, despite having received tax exemptions yet still had difficulty 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 for several years. Many nationalised firms ran well for a time, but were eventually unable to reinvest and had to close. New Parastatal start-ups were never profitable and were also closed. A 1992 survey showed that 6 out of every 10 parastatals will never be able to retire their present debts and are not credit worthy (PSRC, 1993).

Third, the Parastatal under-performance carried through had 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 had been a public sector banking system with a weakened loan portfolio and eroded capital base, unable now to expand lending until it regains strength, this pushes up the real interest rate unnecessarily on any lending that is still possible. Thus the losses of the parastatals have their impact on other borrowers, who are often the poorest with least access to other sources of finance. Another impact of under performance is on the Government budget, which is deprived of revenue. The result is expenditure cutbacks and/or additional borrowing which has an inflationary impact and again it is usually the poor who suffer.

This is not to say that these enterprises have no potentials in future, there are substantial investment opportunities. Many can be turned around under new ownership and will succeed. It is often the companies with the stronger managements, such as Tanzania Breweries Limited or Tanzania Cigarette Company Limited, which best see the potential and the need for a joint venture partner. It has been the experience of state enterprises worldwide that, in both socialist economies and in mixed economies, it is exceedingly difficult to remain competitive, if run by a Board of public servants with multiple objectives and without real accountability to shareholders; with constraints from Government on investment and other business decisions; and if cut off by virtue of ownership from the latest technologies, marketing and management trends.

The basic points are that, public sector Boards and civil servants are not in touch with markets and commercial trends; and Government-run companies have conflicting objectives that do not stress commercial accountability and thus jeopardise survival and commercial success. Reform is a matter of practical necessity rather than ideology. For example, the Government of Cuba, while still committed to socialist policies, has recently chosen for pragmatic reasons, to privatise its telephone company (PSRC, 1994).

Fourth, the final pragmatic reason impelling the Government towards swift Parastatal reform is that resources are being misused. Businesses that are at low ebb are tempted to sell assets, often without the knowledge of their Boards, in order to pay wages or other bills, even if this is not in the companies' long-term interest. In companies that have ceased production, it is difficult to preserve the physical plant and spares. The strong stream of dividends and tax revenues, which should support public spending on, say, health and education, is lost, and it is the poor who suffer as a result.

It is worth noting those employees and their unions, fully aware that the businesses on which they rely are failing or being mismanaged, are often the first to recognise the need for new ownership. They recognise that redundancies are caused by past non-performance and not by the reform or privatisation process itself.

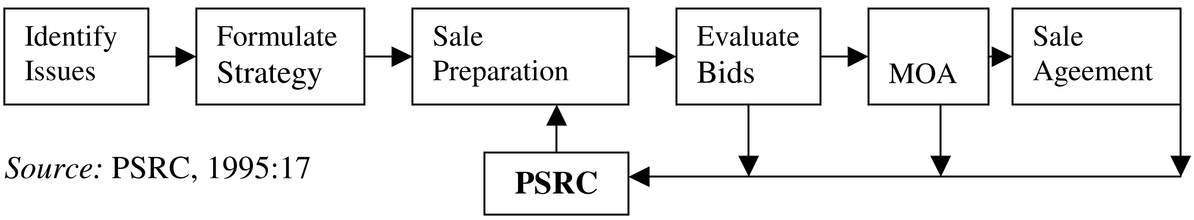
While the day-to-day work leads to painful awareness of the problems parastatals face, we are also aware of their achievements. Throughout the country, businesses exist that would not otherwise have been created, and managements and work forces have gained corporate experience of which they are justly proud. But for a complex of reasons, often beyond the control of individual managers, the system is not self-sustaining. The Parastatal Sector Reform Commission aims to build on these achievements and the experience gained.

PSRC believes that the case for Parastatal reform becomes stronger day after day than it was in the early 1990s when the reforms were started. Although there are many highly able and committed individuals throughout the Parastatal sector, in the absence of the single-minded pursuit of commercial success (which is also in the long-term interest of employment growth and the public at large) narrower concerns have prevailed, of a kind that is seen in public enterprises everywhere. Jobs are created or retained without any commercial justification; Governments are unwilling to agree to price increases or make equity investments even if there is no commercial case, managements and Boards are less able and less willing to impose accountability for results on themselves and their employees; assets disappear, and sanctions for non-performance are often absent altogether (PSRC, 1994: 1-6).

The Government 0f Tanzania in January 1992 first pronounced the Parastatal sector reform policy, as a national policy. 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. For practical purposes, the entire government machinery could not deal with the reform process on day-to-day basis.

In order to execute the privatisation policy, the government established an agency body, *Parastatal Sector Reform Commission (PSRC*) through the Public corporations (amendment) act, 1993.The PRSC was charged with the broad objective of improving the performance of companies that were state owned through the private sector by encouraging wider ownership by the people, foreign capital and technology without undermining revenue generation to the government (PSRC, 1996: 8). By March 2000, PSRC had privatised a total of 283 entities and 16 non-core assets out of 425 parastatals (PSRC, 2000). In practice the privatisation process in Tanzania entails activities in six stages namely: Identification of issues; strategy formulation; sale preparation**;** evaluation of bids; signing of memorandum of agreement (MOA) and signing of sale agreement as illustrated in diagram 1 below (PSRC.1995: 17). The process can be reviewed in certain situations as diagram one illustrates. First, where a successful bidder after being selected withdraws or fails to proceed with the remaining stages. Second, where after signing the memorandum of agreement the selected bidder fails to pay the 10% of the sale price within the specified time framework. Third, where after signing the sale agreement, the buyer fails to honour the payment of sale price according to the agreed schedule. When either of these situations happens, in most cases PSRC has to start again with sale preparations by re-advertising the enterprise afresh.

Diagram 1: *The Privatisation process in Tanzania.*



Source: PSRC, 1995:17

PSRC was entrusted with a package of objectives that are highlighted in the next section.

1.2.3 Objectives of privatisation

In Tanzania the emphasis of reforms is on improving the efficiency of all state owned enterprises, whether retained or divested. The Government decided to distance itself from direct involvement in business, and thus to divest most of its interests whether in loss making or in profit making Parastatal enterprises. All commercial Parastatal enterprises were available for both foreign and local participation using suitable methods of divestiture including liquidation where necessary. The specific objectives of privatisation are classified into primary and secondary as detailed here under (PSRC, 1993).

1.2.3.1 Primary objectives:

The following are the primary objectives, which have been defined in the Government's policy statement on Parastatal Sector Reform:

- Improve the operational efficiency of enterprises that are currently in the Parastatal sector, and their contribution to the national economy;
- Reduce the burden of Parastatal enterprises on the Government budget;
- Expand the role of the private sector in the economy, permitting the Government to concentrate public resources on its role as provider of basic public services, including health, education and social infrastructure; and
- Encourage wider participation by the people in the ownership and management of business.

1.2.3.2 Secondary objectives

In so far as their pursuit is consistent with the primary objectives, the PSRC intends to ensure that divestiture meets the following secondary objectives:

- To create a more market-oriented economy;
- To secure enhanced assess to foreign markets, to capital and to technology;
- To promote the development of the capital market; and
- To preserve the goal of self-reliance.

A good objective set by any organization or individual in business must be 'SMART' , that is the objective should be 'S'pecific, 'M'easurable, 'R'ealistic, and 'T'ime bound (Hunger and Wheeler, 1993: 15). An example of a 'SMART' objective would read as follows: " To reduce production costs in the next three years by 50% or to increase annual output by 200% in the next four years" ETC. It appears that both the primary and secondary objectives set by the government to guide the privatization process fell short of meeting this basic requirement. An objective, which is not 'SMART', presents problems in measuring performance for lack of benchmark.

Nevertheless, in order to overcome the above deficiency, the study established alternative benchmarks[2] against which to measure performance in each of the five related aspects covered by this study. Also experience from other countries assisted in measuring the attainment of privatization objectives.

1.3 Aim of the study

1.3.1 Narrow versus broad evaluations

Many studies on privatization just focus on one or a few aspects. For example type of privatization strategy used in a certain country (Welch, 1998; Bulow, 1996; UN, 1993; Tanyi, 1997), the level of production or the efficiency of privatized enterprises (Konings, 1998; Moshi, 2001b). This is a narrow evaluation approach of privatization.

In this study the ambition has instead been to have a broader view and look at a number of interrelated aspects. The reason for a broader evaluation approach being that when interrelated aspects are viewed at the same time, it becomes easier to clearly see and appreciate what transpired in the privatization process. Both the process and effects of privatization are therefore studied. The other ambition is to borrow experience from what happened in other parts of the World namely, Eastern Europe (Russia, Poland, East Germany, Slovenia & Hungary); Far East (Malaysia) and Latin America (Chile).

The main *aim* ***of this study*** is twofold, first to investigate how the privatization process was carried-out towards the stated objectives and second to find out how asset valuation was carried-out in assisting decision-making at PSRC. As a means to achieve the above objective, the study traces the five interrelated aspects in the privatization process so as to find out whether or not these aspects proceeded in ways that enabled the attainment of the stated objectives in section 1.2.3 above. The five interrelated aspects are outlined here below.

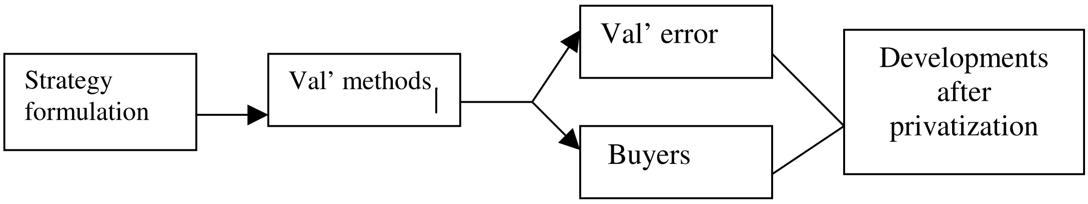
1.3.2 Aspects investigated

The five interrelated aspects in this study to a large extent have been determined by what has been the focus of the local debates on privatization (Business Times, October 25th 1999; The Guardian, November 11th 1999, April 22nd 2003; East African, July 28th – August 3rd 1997).

More interesting is that the same aspects have been central in the international debates on privatization (Financial Times, November 5th 1997). The aspects investigated in this study are summarized in diagram 1.1 below.

[2] Based on theory for chapter three or practice and experience for chapter four.

Diagram 1.2: Aspects Investigated.



Source: Field study, 2007.

The importance of the five aspects in diagram 1.1 above is explained here below.

Formulation of privatization strategy:
In practice privatization strategy is likened to a working tool. Whenever there is a task to be executed, sorting out tools for the task comes first. Where the right tools for any task are carefully sorted out then chances are that the job shall be properly done. Likewise choice of the right strategy is likely to ensure that the intended objectives of privatization are achieved.

Valuation methods:
During sale preparations both buyers and sellers of state owned enterprises must have a benchmark against which acceptability of a given price is ultimately judged. The benchmark in this respect is the market value of the state owned enterprise to be sold. The market value is derived through a process called Valuation. In this regard Valuation is an important aspect in any sale preparation prior to any privatization.

Valuation error:
In setting value estimate against which price negotiation revolves, the issue of accuracy in estimation of value is of central importance. Any error in valuation is likely to result an overvaluation or under valuation of state owned enterprises being valued. An under valuation is likely to lead selling state owned enterprises at low prices that may raise more questions from the government and the citizens. On the other hand an over valuation of state owned enterprises shall lead to setting very high reserve prices that would scare away the would be buyers. It is important that the process of estimating value operates within a margin of error that is acceptable to the valuation profession. A big margin of error is likely to result in a big disparity between the realizable price and expectations from the sellers on the one hand and would be buyers on the other hand.

Buyers of State owned enterprises:
This aspect address the question of who were the buyers in the light of the stated objective of ensuring wider participation by the people in the ownership and management of business operation. In many privatizations, governments attempt to achieve a fair re-distribution of wealth among the citizens in an effort to reduce the income gap between the rich and the poor. Where foreign buyers dominate in purchasing state owned

enterprises government becomes unpopular. Likewise when the income gap is big, social unrest in form of unemployment and crime becomes order of the day.

Developments after privatization:
Under this aspect investigation is directed to whether or not the privatized enterprises continue with the production of goods and services as the case was before privatization. There is fear that factories could be shut down and turned to warehouses of imported goods or that delivery of basic goods and services to the citizens is compromised in favor of more profitable ventures. Findings from this aspect shall be a feedback to policy makers.

1.3.3 The Research question

The main research question guiding this study is twofold first; how was privatization process carried-out towards meeting the stated objectives? And second, how was asset valuation carried-out towards assisting decision-making at PSRC?

1.3.4 Possible determining factors

Each of the five interrelated aspects highlighted in section 1.3.2 above has been analyzed to find out if there are any differences between different groups of privatized enterprises. The analysis has been conducted using three-possible determining factors namely time, geographical location, and type of business of the privatized state owned enterprises.

- *Over time,* one could for example believe that some problems say in valuation would be more difficult during early times when the privatization process started. The difficult could arise from say lack of market evidence from previous transactions or lack of funds to pay up the valuation firms and so on.

- *Between different regions,* it could for example be that foreign buyers might be interested in purchasing state owned enterprises located in larger cities and not in enterprises located in smaller upcountry towns. The reason being that the larger cities like Dar es Salaam are well served with infrastructural services like roads, airports, electricity, water, markets and so on.

- *Between different types of business,* one could for example believe that factories with a higher export potential could be more interesting to foreign buyers than factories producing for the local market. The reason being that the foreign investors are able to retain some of the sale proceeds in hard currencies to recover their initial capital spent on purchase and rehabilitation of the bought factories.

The above three determining factors were compiled from responses from questionnaires and interviews conducted to various buyers of the state owned enterprises as explained under methods.

1.4 Disposition of the study

This study is reported in eight chapters as follows:

Chapter One: Background to the study
The chapter covers the general background to the study, clarifies the aim of the study and limitations of the study.

Chapter Two: Methods
This chapter outlines the number of SOE investigated, how data was collected and analyzed.

Chapter Three: Privatization strategies
Formulation of privatization strategies is like selecting the right tools for the job. The chapter investigated whether the chosen strategies enabled the government attains the stated objectives of privatization.

Chapter Four: Valuation methods
The chapter investigates whether the methods of asset valuation employed enabled the government to set the right benchmarks for the price negotiations with buyers.

Chapter Five: Valuation error
Asset Valuation establishes benchmarks from which the final sale price is negotiated. The method used investigated whether the size of valuation error was acceptable or not, and results are presented in this chapter.

Chapter Six: Buyers
This chapter investigated the basket of buyers to find out whether it met the objective of widening ownership of privatized enterprises to the people. People here connoting citizens of the country owning the enterprises.

Chapter Seven: After privatization
The aftermath of privatization enterprises is investigated to find out whether or not the enterprises continued to produce the goods and services as the position was before privatization.

Chapter Eight: Conclusion
The chapter looks at privatization process as a whole by summarizing results from the perspective of goals of privatization. That is when the process is looked at as a whole what worked rather well, what did not work out as expected.

1.5 Background information on Tanzania

1.5.1 Country profile

The then Tanganyika like many African countries went through colonial rule; first, by the Germans (1884-1918); second, the British (1919-1960). So she got her independence in 1961 from the British crown. Three years later (in 1964), Tanganyika and Zanzibar formed a political union and named it Tanzania. Three years on (1967), Tanzania made a major policy change namely, moving into a socialist system whereby the major means of production and exchange were owned by the state. This was the formal beginning of the huge public sector that is now undergoing economic reforms that includes privatization.

Tanzania has a total area of 945, 234 square kilometers out of which 886, 040 square kilometers is land and 62, 050 square kilometers is water bodies. She has a coastline of 800 kilometers bordering the Indian Ocean. The country has frontiers with other countries: to the north it borders with Kenya and Uganda; to the west it borders with Rwanda, Burundi, and Republic of Congo; to the south it borders with Zambia, Malawi and Mozambique; to the east it borders with the Indian Ocean as it appears in map 1 below.

The population of Tanzania is 34.5 million people, out of which female s are 17.6 million while males are 16.9 millions.[3] The active labor force is 14 million people.

The economy is predominantly agricultural that employs 80% of the labor force, accounts for 56% of exports. It accounts for 50% of the GDP, followed by trade sector 16%, then financial and business sector 10%, then industry 8% and mining 2%. The GDP grows at an annual rate of 6.25 (March 2002), while the rate of inflation during the same period is 4.2%. The GDP purchasing power parity is US$ 22.1 billion (2001 estimates) and the GDP per capita purchasing power parity is US$ 610 (2001 estimate). Exports amounted to US$ 827 million fob (2001) and Imports stood at US$ 1,55billion fob (2001). The gross reserve is US$ 1.528 billion, equivalent to eight months import of goods and non-factor services.

Transportation is such that Railways cover a total length of 3,569 kilometers; Roads cover a total length of 85,000 kilometers (paved 4,250 km and unpaved 80,750 km). Electricity consumption stands at 2.765 billion Kwh per year. In this study the type of economic and business activities in the privatized enterprises have been categorized into two major groups. First, factory (manufacturing and agricultural sector). Second, commercial (trading companies, banks, hotels, transport, consultancy and real estate).

[3] National bureau of statistics, 2002.

1.5.2 Map of Tanzania

Map 1 below, indicates the major towns of Tanzania. The privatized enterprises in the case study are located in various towns that appear on this map. The map shall therefore assist readers (who have never been to Tanzania) to appreciate where in Tanzania the privatized enterprises are situated. Also, the map shows countries in Africa-south of the Sahara that share boundaries with Tanzania.

The study has divided the major towns into two zones. First, Dar Es salaam zone (Dar es salaam, Morogoro, Zanzibar and Coast); Second, the remaining towns of Tanzania. Dar Es Salaam is the capital city, with a largest seaport and airport.

Map 1: Map of Tanzania with important Towns.

Source: Mapping division, 2002.

CHAPTER TWO
RESEARCH METHODS

2.1 Introduction

In Tanzania very little data concerning privatization process is publicly available, this necessitated collection of new data. This chapter explains the way the study was designed, the methods that were used to collect data and how the collected data was analysed.

A research design is a program that guides the investigator as he/she collects, analyzes, interprets observations, and defines the domain of generalizability (Nachmias and Nachmias 1997:98). In a world of scientific research, there are several research designs namely, experimental, quasi-experimental and pre-experimental. This study followed a pre- experimental research design. Under this category there are three types of research design namely casestudy, pretest-posttest, and posttest-comparison group (Nachmias and Nachmias 1997:107).

This study followed a case study design with a single unit of enquiry that has in turn several sub-units of enquiry. The unit of enquiry is the privatization process in Tanzania while the sub-units are the state owned enterprises that were privatized. Choice of Tanzania was influenced by number of factors. First, the country had a planned economy with 425 state owned enterprises. Second, there was limited resources at my disposal to conduct research elsewhere. And finally, the researcher is more conversant to the local environment than elsewhere.

A case study entails studying a phenomenon within its real-life setting. Rather than studying a phenomenon in general, a specific example within time and space is chosen for study. This allows a particular issue to be studied in depth and form a variety of perspectives (Rob Kitchin & Nicholas 2000:225). The purpose of this study together with the nature of data collected influenced choice of this research design. The key question addressed by this study is how privatization process worked out in Tanzania and case study design fits well with this question.

2.2 Number of privatized firms

At the time this study commenced June 2000 a total of 283 state owned enterprises had been privatized. Due to restrictions in the field not all privatized state owned enterprises were involved in the study. The number of enterprises covered in this study ranged between 42 and 80 depending on the aspect being investigated, accessibility grated by the relevant authorities and received responses from the field. Table 2.1 below shows the number of enterprises involved against each aspect studied.

Table 2.1: Enterprises under each aspect studied

Aspect studied	***Number of enterprises***
Formulation of strategy	46
Valuation methods	46
Valuation error	46
Buyer group	80
Developments after privatization	42

Source: Field survey 2003

2.3 Selection of firms

A combination of stratified, random and purposeful sampling was used to select the state owned enterprises to be studied, so that the different groups of the total population were adequately represented, thereby increasing their level of accuracy when estimating parameters. The idea here was to use the available information on the total population to divide it into groups such that the elements within each group were more alike than are the elements in the total population as a whole (Yin, 1994). The power of purposeful sampling lies in selecting information rich cases (Patton, 1987:51-52). However, in situations where all cases in a population were information rich, then random sampling was deployed to select the case.

It is on the basis of the above reasoning that members of the selected enterprises were picked from: privatizations over different time periods; different sectors in the economy, and from different geographical locations.

2.4 Data collection

The most important research instrument used in data collection was documentary review from the PSRC, Ministry of finance, Parent ministry of the privatised enterprise, and the subject enterprise. Interviews, questionnaires, and observations supplemented the documentary review where it was evident that certain type of data was either lacking or not accessible from the documents.

The type of data collected was both quantitative and qualitative depending on the requirements posed by the research question. Quantitative data is considered strong in giving answers to ‘how many’ and ‘how much’ questions. However, the understanding of ‘why’ things happen is better answered by qualitative data, which deals with attitudes, perceptions and behaviour (Rob Kitchin Et al 2000:211). In this study, the quantitative and qualitative data are considered complimentary to each other.

The following subsections explain in detail how data was collected in relation to each of the five aspects studied.

2.4.1 Data collection – Formulation of strategy

The sample comprised of 46 enterprises as carried forward from another related study (Chapter four- Sale preparations). The data collection exercise for this study took place after responses for chapter four of the study had been received. This was an important strategy because of the need to collect data on enterprises that had been valued because access to documents as granted to the study by PSRC had set a maximum number of enterprises that the study could go through. The limit had been set at 100 cases only. In this regard, we had to be precise with which state owned enterprises that data was being sought.

The case study comprised of enterprises located in two different geographical zones, two different lines of business, and covers the period from January 1992 to June 2000. The stratification ensured that the case study was representative of the total population (283 privatized enterprises).

Documentary review was the most important research instrument used in data collection from secondary data sources at the PSRC and ministry of Finance. The documentary review was conducted in the PSRC library in Dar Es Salaam. Useful documents in this exercise included, annual review reports, minutes and proceedings of various technical meetings etc.

The type of data collected was both quantitative and qualitative depending on the nature of the research question. For example, on strategy formulation the following data was collected: type of privatization, composition of strategy formulators, type of remuneration paid to formulators, criteria for strategy formulation and speed of strategy formulation. This was basically qualitative data. The bulk of data collected depended to a largest extent on the main theory about factors affecting price during strategy formulation.

2.4.2 Data collection –Valuation methods

The field survey exercise started on July 1st 2000 and ended around October 20th, 2000. It comprised of a two-phase activity namely, a pilot study and a major fieldwork.

The *pilot study* covered the whole month of July 2000. It entailed collection of data that would form a basis for the major fieldwork. The data collected during the pilot study was from documentary evidence and from primary sources. The main source for documentary evidence was PSRC. At this source the contact point was the information department, which gave access to a *consultants' register*. The register kept names and addresses of all consultants who worked for PSRC, ranging from accountants, auditors, lawyers, valuers etc. This study was interested on names and addresses of valuation firms who worked for PSRC. Attached to each valuation firm's name was a list of all valuers working for it. The documentary survey unearthed names of twelve valuation firms who had worked for PSRC at different times in the period between July 1st 1993 and June 30th 1998.

The next step in the pilot study entailed search for information, which would form a basis for the formulation of a criteria by which to evaluate the valuation methodology. This information was sought from individual valuers in the field. These valuers performed the valuations for privatization while being workers of the twelve valuation firms, which were contracted by PSRC. It was believed by contacting the valuers directly would cut down delays, get the first hand information from the ground and make the valuers feel that they are important people-hence lure them to cooperate in the study.

A questionnaire was posted by mail to fifty individual practicing valuers who had participated in the valuation of state owned enterprises before their privatization. In this questionnaire there were two main questions, first, in your opinion what factors affected valuation results of the privatized state owned enterprises? Second, how did each factor affect valuation results? In a span of two weeks from the date the questionnaire was posted, responses poured in. The response rate was good because thirty questionnaires out of fifty questionnaires posted were returned with answers (60%). A total of sixteen factors were listed, ten factors appeared in all thirty questionnaires and were well explained as to how each affected valuation results, six other factors appeared in ten questionnaires with very bare and unconvincing explanation of how they affected valuation results. The researcher picked the ten factors that were properly explained and listed by all respondents as being true representative of the entire population. It is these ten factors that appear in this study as evaluation criteria. With the valuation criteria ready, a stage was now ready for the take-off of the major fieldwork.

The *major fieldwork* started around August 3rd 2000 and lasted until October 20th 2000. It was directed to collect data from the twelve valuation firms that had carried-out valuations of SOEs as contracted by PSRC during the five year period (July 1st 1993 to June 30th 1998). The purpose of this field survey was to collect data that would enable the study to evaluate the valuation methodology used to value the SOEs. *A questionnaire* was physically distributed by research assistants to twelve valuation companies that actively participated in all valuations for privatization. Each valuation firm was given ten copies of identical questionnaire forms, such that one form was to be completed for each of the SOE valued by the firm. This number was based on the assumption that each of the twelve valuation firms had valued not less than ten SOEs. This mode of distributing questionnaire was preferred so as to cut down time delays as all firms were situated in Dar es salaam and to be certain that the questionnaire reached the intended company. The Questionnaire sought information on: transparency in valuation tender selection by PSRC, the number of qualified valuers employed by each company and their qualifications, whether the firm had hired any specialist valuers from abroad, number of jobs executed from PSRC since 1993, method of valuation used for each job, whether or not their work observed any standards, availability of data for valuation, whether deadlines set by PSRC to complete the work were reasonable, whether all valuation works got approval from the chief valuer, any requirement to defend the valuation report, basis for computing remuneration, promptness and adequacy of remuneration from PSRC, usefulness of the stock market and estate agents as sources of data.

Responses on the questionnaire were then physically collected from each valuation firm by research assistants upon call from the valuation firms. This approach was preferred to ensure safety of the documents and minimized delays in getting them back. This process continued up to October 30th, when it became clear that this was all that the study could get back from the field. Eight of them responded while four did not respond. The response rate was good (67%). From the eight valuation firms that returned the questionnaires, there was complete information covering 46 SOEs. Information on 20 other SOEs was incomplete and fragmented, thus not worth for any analysis. Further, there was no information at all on another 15 SOEs - apart from writing down their names only. The total number of SOE as listed from the questionnaires was 86 out of which 46 had complete information for analysis. In this case therefore, the response rate was fare enough (58%). This explains why the case study is made up of 46 SOEs.

Documentary review was another important research instrument used in data collection from the PSRC, Ministry of finance, Parent ministry of the privatized state enterprise, and the subject state enterprise. The researcher in person was given access to PSRC library where he went through a number of documents namely, annual reports, files, pamphlets and brochures. From documentary review the following data were collected: names of privatized firms, date of sale, price agreed, valuation estimates, and names of buyers for each SOE in the case study. This data was used to cross-check the accuracy of information entered in the questionnaires by the valuation firms.

At different times during the field-work tenure, *open-ended interviews* were conducted to the following people: chief executives of Tanzania Institution of valuers and estate agents (TIVEA) and National council of professional surveyors (NCPS) to establish whether there were any valuation standards in Tanzania; the chief executive of Dar Es Salaam stock exchange so as to establish whether any of the SOEs in our case study was listed prior to its privatization; the chief government valuer to ascertain whether or not all valuation reports for privatizations were approved by his office; consultants who handled valuation reports at PSRC to get their opinion on the valuation estimates; ten building contractors to get rates of cost of construction per every square meter for both the private and public sectors.

2.4.3 Data collection - Valuation error

The data collection exercise took place in autumn 2000. A sample of 46 transactions were involved as units of enquiry in this study. The transactions covered an eight-year period from January 1st 1992 to June 30th 2002. Valuations were carried out between 4 to 8 months before sale. This information was extracted from Parastatal Sector Reform Commission (PSRC) database. The researcher in person was granted access to the documents in the PSRC library, Dar Es salaam. The list of 46 SOE had been carried forward from an earlier study, where sample selection was carried out.[4]

[4] Sale preparation and valuation methods in Tanzania (chapter four).

In this part of the study one research instrument was used to collect data namely, *documentary review.* Through documentary review the following documents from PSRC were examined, annual reports, files, pamphlets and brochures. From the above documents the following data were extracted: names of privatized firms, date of sale, price agreed, valuation estimates, privatization strategy, names of buyers, and names of valuation firms working for PSRC.

Since the list of valuation firms working for PSRC is not for public use, the prospective buyers submit purchase bids in closed tenders without knowledge of how much the property was valued. Similarly, valuers submit their valuations to PSRC well in advance (4 months) before tenders for purchase are advertised, thus have no knowledge of the price quoted by prospective buyers. That is, neither the valuer nor the buyer influenced the other.

2.4.4 Data collection - Buyers

The task of collecting data for this study lasted three months (from September 1st to November 30th 2001). The first step involved preparing a checklist of information to be collected. This was followed by selection of a sample for the study. In the earlier three studies (chapters three - five), a sample of 46 SOE was used. In the current study, it was decided that the sample be doubled to 92 SOEs. The reasons behind the decision were mainly two. First, the study covered a very sensitive topic to the general public as well as to politicians. Thence, need to come up with very realistic results. One way to achieve this is by increasing the sample size. Second, having been in constant touch with the PSRC for the past two years without leaking any of their data to the press, a friendlier atmosphere and trust between us had resulted. Hence, their willingness to open-up their data base to my study. This gave the researcher access to information on a larger number of privatized SOEs than it was in earlier studies.

The sample was selected by a combination of stratified and random methods. Stratification was necessary to ensure that the sample was representative in term of location, line of business and time the SOEs were sold. Access was granted to a total number of 100 SOEs. After classifying the enterprises according to their location, business and time, there followed a random choice to pick the sample. Since we had an earlier sample of 46 SOEs, we needed another 46 additional units to add-up to 92. The additional 46 units were randomly picked from a box where papers with serial numbers of the SOEs had been mixed-up. Upon subsequent closer examination of the documents related to the picked sample, 12 units were disqualified from further processing, leaving us with 34. Reasons for their disqualification included, lack of basic inputs like, lack of a buyer's name, or lack of contract documents etc. When the old sample with 46 units was added to the new one with 34 units we got a larger sample with 80 units.

In this part of the study two-research instruments namely, documentary review and interview, were used to collect data. *Documentary review* was the most important research instrument used in data collection from the Parastal sector reform commission (PSRC). Through documentary review the following data were collected from annual reports, files, pamphlets and brochures: Names of privatized firms, date of sale, price agreed, privatization strategy used for each case, type of business, names and origin of buyers.

An *interview* was conducted to the chief executive of Dar Es Salaam stock exchange so as to establish whether any unit in our case study was listed prior to its privatization or after. The purpose was also to find out the initial quotation price for each firm's share during their listing, and the level of people's participation. Interviews were also conducted with ordinary employees of the privatized firms and those of the registrar of companies to verify upon the *true owners* of the privatized firms.

A structured question was asked to *five* employees from each of the 25 privatized enterprises involved in the exercise. The choice of these enterprises was purposefully made because there were some gossips already in circulation doubting the authenticity of their ownership. The question was, *who is the true owner of the enterprise you are working for?* The answer was to come from one of the three: Tanzanian or foreigner or I don't know. The interview was conducted to 25 randomly selected enterprises purported to have been sold to citizens of Tanzania. Employees from 20 enterprises co-operated and answered the question. Those from 5 enterprises refused to co-operate for fear that they could loose their jobs.

2.4.5 Data collection - Developments after privatization

This study took place between July 1st 2001 and November 30th 2001. Observation was conducted to a sample of 43 SOEs, which resulted from a larger sample comprising 80 SOEs used in an earlier study (chapter six - Buyers).

In this part of the study three research instruments namely documentary review, Questionnaire and interview were used to collect data. *Documentary review* was the most important research instrument used in data collection from the Parastatal sector reform commission (PSRC). Through documentary review the following data were collected from annual reports, files, pamphlets and brochures: names of privatized firms, date of sale, location of the firm, type of business, name of initial buyer, investment plan and feed back report from the buyers concerning implementation of the investment plans.

Two sets of q*uestionnaire*s were posted by mail to 80 privatized firms that had entered contract with PSRC for investment pledges for the period 1992-2000.The first set addressed the decision to purchase the state owned enterprises while the second set addressed the developments after privatisation. Out of the posted lot, 43 questionnaires were returned. This is a response rate of 54%. The questionnaire collected the following information: whether the owner was the initial or secondary buyer, whether the management had any investment plan, if yes of what cost, whether any part in the investment plan had been executed, if yes at what cost, and what reasons were behind such investment. For example, to increase capacity, improve quality, diversify products, manpower development, research, marketing etc; and any formal reporting about progress made on the investment plan.

Interviews were conducted at four places namely, at PSRC head office, at the ministries of agriculture, trade and industry, and at ministry of natural resources and tourism. These three ministries were selected because the majority of the enterprises in the case study belonged to them, as parent ministries. There was only one question asked in all the four places interviewed: *Do the privatized enterprises report to you the progress made in the implementation of their investment plans?*

2.4.6: Reliability and internal validity

The reliability of the data collected is largely determined by the accuracy of the methodology used to collect the data. The methodology used in this study is consistent with the case study research design. For instance under documentary review, the sources of data were mainly government institutions like PSRC whose motive is neither profit making nor keeping competition edge against business rivals. Therefore there is hardly any need to doctor their information.

Concerning the question of measuring validity. The study carried out validity tests which tested whether the sampled population represented the total population that were aimed at the beginning of the study. Another validity test concerned the predictive validity which measured the results of the analyses against the expected results.

2.5 Data analysis

2.5.1 Tools for analysis

The quantitative data collected were organized and summarized by using descriptive statistical methods such as averages, proportions, frequencies, charts, tables, graphs, ratios and percentages (Walsh, 1990). Frequency analysis contained information that provided a summary of the number of responses to each question on the questionnaire form. On the other hand, qualitative data was interpreted and explained against the relevant research question.

This subsection discusses three main factors that influenced the buyers' decision to purchase the privatized state owned enterprises.

2.5.1 Determining factors

Three determining factors were identified in this part of the study as explained in much more detail here below:

- *Over time,* one could for example believe that some problems say in valuation would be more difficult during early times when the privatization process started.

The difficult could arise from say lack of market evidence from previous transactions or lack of funds to pay up the valuation firms and so on.

- *Between different regions,* for example that foreign buyers might be interested in purchasing state owned enterprises located in larger cities and not in enterprises located in smaller upcountry towns. The reason being that the larger cities like Dar es Salaam are were served with infrastructural services like roads, airports, electricity, water, markets and so on.

- *Between different types of business,* for example factories with a higher export potential could be more interesting to foreign buyers than factories producing for the local market. The reason being that the foreign investors are able to retain some of the sale proceeds in hard currencies to recover their initial capital spent on purchase and rehabilitation of the bought factories.

These factors were extracted from responses to a questionnaire posted to one hundred buyers of state owned enterprises. The questionnaire addressed the buyers' decision to purchase. The response rate was 80%. The questionnaire collected information concerning whether the buyer was local or foreign and a list of factors that influenced their decision to purchase. It was from these responses that three factors dominated in all buyers. These factors were location, type of business and time of purchase. Another factor that appeared in only 15% responses and thus ignored was size of capital involved.

2.5.2 Other determining factors

There were other determining factors used in data analysis that were specific to the aspect being investigated. For example:

- Under strategy formulation nine theoretical factors were used as benchmarks against which to evaluate privatization strategies (see section 3.4 below).

- Under Valuation methods an evaluation criteria based on experience from practicing valuers were used to test the valuation methodology deployed (see section 4.5 below).

2.5.3 Chi-square tests

Further, in analysing the collected data a non-parametric test namely, Chi-square was also used. One of the most useful and popular tools in social science research is cross tabulation using a statistic called Chi-Square. The Chi-Square test of independence is a test of significance that is used for discrete data in form of frequencies, percentages or proportions. It is one of a number of tests of significance and measures of association known as nonparametric statistics. The term nonparametric simply means that unlike their parametric counterparts, nonparametric statistics do not require any assumptions to be made regarding the underlying population. The usual assumptions are that the population is normally distributed or has a known standard deviation. That is, the nonparametric tests are less restrictive than parametric tests (Walsh, 1990: 165).

In the relevant parts of the study, Chi-Square test are deployed to find out whether or not there were any significant relationship between two or more variables in a case, for example between valuation error on the one hand and time of sale or location or line of business on the other etc.

2.6 Generalization

It is generally agreed that findings from case studies are not generalizable. Those findings from one case study can be related or transformed to another context provided that conditions in such context are similar to those prevailing in the concluded case study (Yin 1994: 38; Patton 1987: 167). Similarly, findings from this study are not generalizable; they can only be related to another context provided that conditions in such context are similar to those prevailing in the concluded case study.

CHAPTER THREE
PRIVATIZATION STRATEGIES

3.0 Introduction

Strategy formulation is an important tool used in privatization to enable governments realize the intended objectives. Generating government revenue through competitive prices and broadening ownership are common objectives in many privatization programmes. This chapter addresses the effectiveness of strategies formulated using firm level data from forty-six out of 283 Tanzanian privatizations between January 1992 and June 2000.

3.1 Purpose of this study

The focus of this part of the study is the extent to which strategy formulation has or has not promoted competitive prices for the generation of expected revenue to the government. This is done in two steps first, to critically examine how strategy formulation was being done; and second, to find out whether it proceeded in such a way that could affect the price level that in turn could affect the amount of revenue realised. That is, to see if strategy formulation was carried out in ways recommended by experts in the literature. Thereby evaluate whether there were certain problems in strategy formulation and if it could have been done in a better way.

The main research question guiding this paper is in two parts first, how were privatization strategies formulated? Secondly, were the strategies formulated as recommended by experts in the literature?

3.2 Overview of privatization strategies.

3.2.1 Introduction

Strategy formulation presupposes existence of objectives by the decision-making hierarchy. The decision-making hierarchy of a firm typically contains three levels: corporate level at the top, business level in the middle and functional level at the bottom (Pearce, 1997: 5). Similar levels can be found in the government sector.

The corporate level is principally composed of a board of directors, the chief executive and administrative officers. It is responsible for firm’s financial performance, achievement of non-financial goals such as enhancement of firm’s image and fulfilment of its social obligations. To a large extent, attitudes at corporate level reflect the concerns of stakeholders and society at large.

The business level is typically composed of business and corporate mangers. These managers translate statements of direction and intent generated at corporate level into concrete objectives and strategies for individual business divisions. On the other hand, the functional level is typically composed of managers of product, geographic and functional areas. They develop annual objectives and strategies for their respective areas.

Strategy formulation guides executives in defining the business their firm is engaged in, the ends it seeks, and the means it will use to accomplish those ends. Strategy formulation process begins with definition of the company mission, including broad statement about its purpose, philosophy and goals (Pearce, 1997: 27).

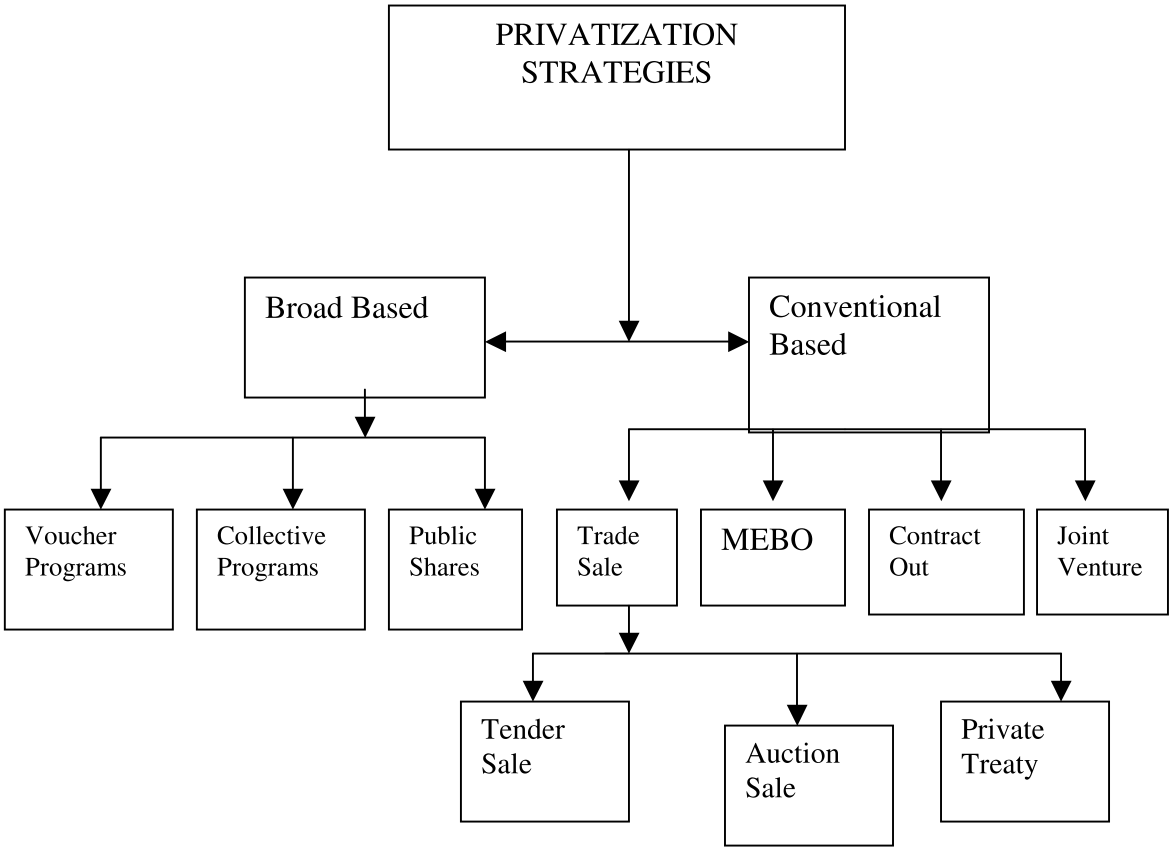
Ideally the strategy formulators should come from all company levels (corporate, business & functional). Such participative approach enhances company ability to prevent problems during implementation. Subordinates who are aware of the needs of strategic planning aid managers who encourage their subordinates to participate in planning in their monitoring and forecasting responsibilities. The involvement of employees in strategy formulation improves their understanding of product-reward relationship in every strategic plan and, thus heightens their motivation (Pearce, 1997: 5).

Privatization strategies have been classified into two large families namely, *"Broad-based"* ownership strategies such as voucher based programmes and *"Conventional"* privatization strategies such as trade sale. The classification of these strategies is illustrated in diagram 2.

3.2.2: Broad- based / Mass privatization strategies

The urgent need to privatize large number of state owned enterprises (SOEs) in equitable ways led to the development of three basic broad-based ownership strategies namely: voucher based programs; collective investment programs; and public share offerings (Bell, 1999). These strategies were preferred due to three main reasons namely: they were politically popular; they had better redistributive results, and helped capital market development. Politically, the strategies aim at spreading share ownership to the population at large or to specific subgroups (such as the poor or an ethnic minority). On the redistribute front, the strategies allow governments to address concerns about the distribution of wealth. Finally, the strategies can play an important role in developing and deepening capital markets and associated institutions (Tanyi, 1997). Diagram 3.1 below illustrates a general classification of privatization strategies.

Diagram 3.1: Classification of privatization Strategies.



Source: Field Survey 2003

3.2.2.1 Voucher based programs

Voucher based programs entail distribution of certificates / coupons, to participants, who later exchange vouchers for shares in financial intermediaries (voucher funds). Later on, the intermediaries bid their accumulated vouchers for shares of SOEs. In most cases, vouchers can be freely traded for cash. Typical example of these financial intermediaries includes investment trusts for start-up purpose, transforming later into unit trusts. Vouchers work best where their distribution and trading centres are easily accessible and where there is a competent administrative system for their distribution and registration. A stock exchange is not a prerequisite for a voucher-based scheme. Vouchers have been widely used in transition economies of Eastern Europe and the former USSR (Nellis, 1996; Ramachandran, 1997; Pistor et al, 1997; Gray, 1996; Hanoesek Et al, 1998; Ellerman, 1998; Shafik, 1995).

3.2.2.2 Collective Investment programs

Collective investment programs include investment trusts and privatization trust funds endowed with government-owned equity, pension schemes funded from the earnings of SOE shares, and non-voucher-based unit trusts. These collective programs differ from voucher-based programs in two ways. First, they do not necessarily entail distribution of paper vouchers and, as a result, are simpler to administer and usually require lesser resources to take-off. Second, there is generally restricted entry and exit to participants of these schemes. In privatization trust funds, citizens do not individually own shares in that fund or any of the underlying assets. Instead, the assets are collectively owned and held for the benefit of the present and future citizens. That is, there is no immediate direct financial gain for participants. Policy maker usually go for these collective programs when capital markets are weak and constrained, or when there is little understanding of share ownership, or where there are cultural barriers to individual accumulation of wealth, or where there is a low level of literacy, and where there are logistical problems such as a highly dispersed population that is difficult to reach (Bell, 1999).

3.2.2.3 Public Share Offering

A public share offering has been mostly used when large amount of capital needed to be raised and when widespread ownership was major objectives of a privatization exercise. Although the technique creates the most public awareness, it is the most technically difficult approach, requiring a lot of care in choosing candidates among hundreds of potential SOEs and carefully planning the details for the floatation. Through public offerings the government invites applications for the shares at a set price. Where the issue is oversubscribed, the shares are allocated according to a rationing scheme that is determined by the government and the underwriters. To be successful, a public offer requires a well-developed financial market and an efficient system of corporate valuation (Tanyi, 1997; UN, 1993; Welch, 1998; Gray, 1996).

One of the most frequent criticisms of broad-based ownership schemes (particularly the voucher programs) is that enterprise risk being ‘orphaned’. That is, ownership can become so widely diffused that there will be no dominant owner to compel good management. The best way out of that problem has been to reserve majority shares for a core investor. The remainder can be broadly distributed. Unless this is done, the political and social gains could be scored at the expense of very high costs in terms of lost economic benefits (Bell, 1999).

3.2.3: Conventional Privatization Strategies

The traditional strategies include, Trade Sale; Employee-Management buyouts; Contracting and Joint venture shares.

3.2.3.1 Trade Sale

This strategy can be implemented through one or a combination of the following methods: sale by tender, sale by auction, and sale by private treaty.

3.2.3.1.1 Sale by Tender offers

Under this method, governments solicit bids from private investors for a stipulated percentage or trenches of stocks above a minimum tender price. Bidders prepare and present a management proposal stating among other things; the amount of money they will invest in the enterprise and their intention to hold the stock for at least a stipulated time. The government then reviews the received bids and makes a final selection on the basis of investor's financial strength, reputation, experience, and quality of investor's management cum investment plan.

The tender method has a number of advantages. First, it leads to accurate pricing because the price is set by demand and supply, and circumstances make it difficult for investors to collude; it produces market valuation of the enterprise from the very start, thereby facilitating subsequent trading. Arbitrariness, delays, corruption, and unnecessary cost can be reduced. Second, the successful bidder is usually the highest value user with the potential to reaping the largest efficiency gains from privatization. Thirdly, the method give investors an opportunity to buy what they want-that is, a choice of what shares to buy and is less susceptible to manipulations. Fourth, the method can boost corporate governance if winners are either institutional or strategic investors with a majority stake in the enterprise.

On the other hand tender method suffers from one major problem namely, it may not ensure efficient allocation of resources where the capital market is imperfect. That is, minimum efficiency is guaranteed when several bidders participate. Should it happen that potential bidders fail to participate or cannot raise the required money to make acceptable bids, the method will result in low prices, and the privatized SOE will not end up in the hands of the highest value users. This is particularly true in African context where the capital markets are either non-existent or very thin. It is further evident that the tender method works against small investors who face difficulties in raising the necessary capital sufficient to make the highest bids even if they could have managed state enterprise being offered for sale in more efficient ways than the large investors who happen to have the necessary capital at their disposal. (Tanyi, 1997; King, 1994).

3.2.3.1.2 Auction Sales

The main feature of the normal type of English auction is that competition to buy is concentrated in time. There need be no previous statement or indication of price; the bidding can only move the price upwards until only one bidder remains and the seller is required to accept the final bid (at the sale price equal the lowest competitive price at which supply equals demand). And since there is a successful bidder the contract will be signed. In the theory of optimal auctions the seller is treated as a monopolist who can choose any mechanism, such as establishing a minimum sale (or reserve) price, to maximise expected profit. Optimal auction theory assigns all bargaining power to the seller, subject to the constraint that she does not have access to buyer's private information about the asset's value at the sale. (Bulow et al, 1996).

Auctions tend to be expensive, as they require accurate, concentrated and widespread advertisements. The method is vulnerable as an auction can take six to eight weeks to prepare and during that time there could be a change in the market conditions. Public auction is not suitable for sale of every type of property rather certain circumstances almost compel use of the method namely: where fiduciary money interests are involved-such as sales by order of trustees, executors, mortgagees or liquidators, properties for which considerable competition can be expected or when the owner has to sell the property within a prescribed time or when it is difficult to assess the value of a property. The choice of auction method is further affected by arguments about the political sustainability of the outcome; the robustness of firm's bidding strategies; and the opportunities for collusion among firms. All these elements combine in determining whether an auction design yields value; how that value is distributed among bidders, consumers, and the government; and whether the deal will last (Klein, 1998).

3.2.3.1.3 Sale by Private Treaty

Once the government has chosen a buyer, it negotiates an agreement that is suitable to both parties. Negotiated sales are used when there is only one bidder or a bidder has a marked advantage over other bidders in the eyes of the government.

The advantages associated with this method include among others: it is relatively cheaper; there are no immediate time pressures upon either the seller or the buyer; negotiations are private and opportunities exist to bargain until a relatively late stage; and the seller enjoys the opportunity of playing off one potential purchaser against another in comparative secrecy. The main disadvantages are that it is usual to advertise a price, which is then assumed to be the top price negotiations. This will tend to move the price downwards; there is a lot of uncertainty about conclusion of sale on both parties until contracts are exchanged; and the method is less transparent than open bidding and hence more vulnerable to abuse (Welch, 1998; Bulow et al, 1996)

3.2.3.2 Management-Employee Buy-Outs [MEBO]

Under this method the managers and employees acquire a controlling interest in a state owned enterprise. The usual procedure is for a holding company to be created in which the management and employees buy a controlling interest. The holding company then uses the equity and any debt funds to the privatizing enterprise, subsequently paying debt interest and principal out of the funds available from enterprise dividends.

MEBOs are potentially very risky for the business because of the usual lack of entrepreneurial experience on the part of the workforce, together with the probability that the enterprise may have been experiencing operating and financial problems. Secondly, giving preferences to insiders inhibits and may even eliminate competition in the privatization process. On the other hand, MEBOs offers certain advantages. First, it minimises the social cost associated with layoffs and liquidation of enterprises. Second, it should have beneficial effect on future productivity because workers shall now have higher incentive to work harder due to the stake in ownership which translates into dividends payable to the new owners (UN, 1993; Tanyi, 1997; Wieser et al, 1997; Ben-Ner et al, 1996; Aftab et al, 1996; Gray, 1996).

3.2.3.3 Contracting-out

Provision of services like water and electricity supply, garbage collection, and other public works are worldwide run as state monopolies. These services are capital intensive and their production as well as distribution costs discourage private investors. Over time it has been accepted that efficiency in the provision of these services could be improved through contracting-out privatization without ownership change. Under this method, the private operator contracts with a government entity to provide the service in accordance with certain performance standards; the government, in turn, guarantees the market for the services and keeps control by using payment of the service fee as leverage for performance. Other modified versions of contracting-out include: management contracts and operating leases & concessions

Advantages associated with contracting-out include: first, it generates savings because of competition, which leads to reduced service cost and improved service quality. Second, as demand for service increases, the size of the program can be adjusted without employee layoffs, thereby making the full cost of the project more visible. Third, government officials can devote their attention to planning and monitoring rather than the day-to-day operations, hence promoting better management and greater objectivity in evaluating current operations. Fourth, it provides a powerful incentive that will boost overall efficiency because the managerial decisions are directly borne by the private operator without passing over his losses to the taxpayers. Fifth, new projects can be started without large initial capital outlays, thereby facilitating experimentation with new services (Tanyi, 1997).

On the other hand contracting-out is susceptible to abuse because of maintaining the monopoly. First, the desire to obtain contracts can encourage bribery, kickbacks, and payoffs. Second, the profit motive may lead to cost-cutting practices that could lead to quality reduction of the services. Third, competition may be impaired in particular areas where the initial entry costs are high, thus renewal of contract being automatically granted to the existing operating company (Tanyi, 1997; UN, 1993; King, 1994: 75; Shirley, 1998; Domberger et al, 1997).

3.2.3.4 Joint Venture shares

This is a hybrid method, which reflects elements of other methods like trade sales, public share offering and management contracts. It has been viewed as the most immediate method of attracting foreign direct investment (FDI). Through this method, a county's need for foreign capital, technology transfer, operational know-how, and the building-up of infrastructure, can be blended with investor's need in business expansion and profitability. Joint venture agreements take many legal forms ranging from simple trade agreements to jointly owned companies. Some governments have concluded joint ventures with private investors that contain pre-emptive rights contractually restricting the rights to transfer ownership of a company's securities. Such situations may place governments in awkward situation that may undermine further privatization at any good price in future (UN, 1993; Fre'mond et al, 1998).

3.3 Privatization strategies in Tanzania: An overview

In Tanzania the formulation of privatization strategy for a particular state owned enterprise is done by PSRC in consultation with the parties concerned (parent ministry and the company chairman) [PSRC, 1995: 18]. The choice of a strategy for enterprise reform is primarily determined by the nature of the enterprise, its past performance and by the Government's preferred post divestiture or restructuring shareholding. Factors considered in formulation of a privatization strategy include the followings [PSRC, 1996: 8]: (1) The economic significance of the parastatal; (2) The strategic nature of the parastatal; (3) The likelihood of high redevelopment or restructuring costs and/ or low initial returns; (4) The complexity and cost of expertise and technology required; (5) Past operational and financial performance; (6) Opportunities for encouraging new entrepreneurs; and (7) Opportunities for achieving broader ownership.

After the government considered proposals tabled by PSRC concerning divestiture strategy for each enterprise and in line to the above seven factors the Cabinet issued a paper in March 1996, defining Government's reform guidelines and residual level of government shares in each enterprise as follows: (1) Those that will continue to be wholly Government owned; (2) Those in which the state shall retain majority ownership; (3) Those in which the state will retain a minority shareholding; (4) Those to be divested through outright sale; (5) Those to be closed or liquidated; (6) Those to be leased.

In practice, strategy formulators comprise of a technical committee of experts drawn together from various professions. On representative basis, they come from the ministry responsible for privatization, parent ministry of subject enterprise, the enterprise earmarked for privatization, and two consultants from PSRC. There are five committees whose formation is based on sectors. For example, textile sector, agricultural sector, metals & engineering sector etc. Strategy proposal from the committee is forwarded to the 'Commission' – PSRC for approval. The Commission then forwards the proposed strategy to the cabinet where a final decision is made. In very few situations, a final decision is sought from parliament. For example, where a privatization entails repealing a statute that created the enterprise.

Subsequently, the main types of privatization strategies adopted in Tanzania by June 30th 2000, for the 283 privatized enterprises and the 16 non-core assets with their respective numbers are presented in table 3.1 below.

Table3.1: Divested enterprises by strategy type [1992-2000][5]

Strategy type	1992	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1997/ 98	1998/ 99	To tal	(%)
Trade sales	5	18	11	24	25	29	24	136	45.5
Liquidation	0	16	17	9	11	6	2	61	20.4
Closure	4	5	1	7	1	0	2	20	6.7
Lease	2	8	5	7	1	0	1	24	8.0
PCS/MGT	0	1	2	0	2	0	0	5	1.7
Restructure	NA	NA	NA	NA	NA	2	0	2	0.7
Floatation	NA	NA	NA	NA	NA	1	0	1	0.3
Total: PSRC	11	48	36	43	40	38	29	249	
LART	0	11	9	0	0	14	0	34	11.4
TOTAL	**11**	**59**	**45**	**43**	**40**	**52**	**29**	**283**	**-**
Non-Core	NA	NA	NA	NA	NA	9	7	16	5.4
GRAND TOTAL	**11**	**59**	**45**	**43**	**40**	**61**	**36**	**299**	**100**

Source: PSRC, 2000.

Observation on table 3.1 reveals that over time each privatisation strategy had a trend of some kind. For example, trade sale grew from 5 enterprises in 1992 reaching the peak of 29 enterprises in 1998; liquidation started with a peak of 16 enterprises in 1993 later falling to 2 enterprises in 1999; closures grew from 4 enterprises in 1992 reached the peak of 7 enterprises in 1996 there after falling to 2 in 1999; lease had a low start of 2 enterprises in 1992 rising to 8 enterprises in 1994 there after falling to 1 enterprises 1999; PCS/MGT maintained a low profile of 1 enterprise in 1994 then rising to 2 enterprises in 1997 thereafter falling to zero in 1999.

Only in trade sale strategy do we see a low number of privatizations during early years (1992) increasing over time in later years (1999). In the remaining strategies (liquidation, closure and lease), the situation works in the opposite direction, whereby there are many privatizations in early years (1992-94), which, decline to few in later years (1999). The leading strategy in use is trade sale, followed by liquidation and the least used strategy is floatation-probably because the stock market started its operations for the first time in Tanzania hardly nine years ago (1999).

[5] *Notes for Table 3.1:*
1992 Divestitures were done by relevant ministries before formation of PSRC; NA= not available/ not applicable; LART=Loans Advances Realization Trust; PCS/MGT CT= Performance / Management Contracts; Non-Core Assets denotes sale of parts/components of a state enterprise; Trade Sales include: joint venture, shares & asset sales.

3.4 Criteria by which to evaluate privatization strategies

This subsection discusses nine theoretical factors during strategy formulation that are likely to affect the privatization objectives. Among other things, the aim of any strategy formulated is to realize high prices, which would in turn increase government revenue. The factors were subdivided into *primary* and *secondary*. On the one hand, *primary* covered all those factors, which had a somewhat direct bearing on price and revenue to governments. On the other hand, *secondary* covered factors that had a somewhat lesser bearing on price and revenue to governments.

3.4.1 Primary Factors

3.4.1.1 The structure of the bidding and competition

Theoretically and empirically it is held that more competitive bidding has a beneficial impact on sale price (Milgrom, 1987; Brannman et al, 1984). Another facet to competition in the bidding process is admission of foreign investors. Opening the process to foreign investors should drive up prices through increased competition and reduced scope for collusion, particularly in oligopolistic[6] industries of developing countries (Laffont, 1994). Insufficient private domestic savings may be another reason in favor of allowing foreign investors to bid (Blanchard et al. 1991). Other bidding requirements, such as bidder pre-qualifications, restrictive form of payment, like requiring cash-only sales or allowing credit or non-cash payments, can also have tremendous impact on sale prices (Lopez-de-silanes, 1997). Privatizations strategies where bidding was open even to foreign investors or allowed liberal mode of payment (allowing credit or non-cash payment) was awarded a 'fulfilled' mark and negative otherwise.

3.4.1.2 Majority influence of the new owner

Share packages could have a major effect on price levels because residual rights of control are the critical determinant in resource allocation. Privatization strategies that give majority shares of control to the buyer will have higher prices than those strategies that lead to minority packages of shares (Grossman et al, 1986). This variable represents the percentage of shares sold in the privatization of a parastatal. Where shares sold are more than 50% such that the buyer has control over the affairs of the company, a 'fulfilled' mark was awarded and a 'not fulfilled' mark otherwise.

3.4.1.3 Professionals formulate strategy

Formulators of privatization strategies must be professionals capable of forging a link between objectives on the one hand and strategies on the other. It is the professionals who can predict the implication of each choice of strategy on price level. Logically attainment of privatization objectives relies on realization of competitive prices. Practice shows that engagement of professionals in strategy formulation is likely to pay dividends in form of

[6] State of limited competition between a small number of producers or sellers

higher prices (Pearce et al, 1997). The variable refers to a team of experts who formulated privatization strategies. Composition of the team changed depending on the nature of business performed by the relevant enterprise. Experts were picked, one each, from the Treasury, PSRC, parent ministry, holding company (where applicable) and the subject parastatal. Where majority of the team members were professionals a 'fulfilled' mark was awarded and a 'not fulfilled' mark otherwise.

3.4.1.4 Remuneration to professionals

Remuneration payment to strategy formulators is another important variable that has a bearing on how the team will discharge its duties. Where material payments are not made or underpayment prevails, strategy formulators will have lower incentive to perform their duties diligently. Worse such practice could be good breeding ground for corruption by potential buyers (Rose-Ackerman, 1996). On the other hand, timely incentive payments is likely to motivate strategy formulators perform their duties more diligently with lesser temptation to accepting bribes. Therefore, adequate and timely remuneration payments to strategy formulators are likely to result into correct choice of strategies and ultimately higher prices. This variable represents monetary payments to the team of experts formulating strategies. Market rate refers to Tshs 50,000 per expert per working day based on what experts are paid in private firms. Where majority of the team was paid the market rate a 'fulfilled' mark was awarded and a 'not fulfilled' mark for lower rates.

3.4.1.5 Speed of strategy formulation

Speed in each privatization sub- process could influence sale prices. There are many approaches to this issue. The announcement or even the rumor, of a firm's privatization may trigger a change in stakeholders' behavior. Privatization rumors may lead to lower productivity, lower performance, wage increases, costly liquidations, or the outright theft of assets, analogous to the situation of a firm in financial distress (Lopez-de-Silanes, 1997). Managerial distraction and foregone investment opportunities are possible explanations for the loss of value, as in the case of financial distress (Altman, 1984; Wruck, 1990). On the other hand, there may be grounds for a slow privatization program if local capital markets are underdeveloped and a high speed in privatization would result in lower revenues (Bolton et al, 1992). Delaying or sequencing privatization may also be desirable if it is assumed that politicians are using that time to create more efficient regulatory schemes for privatized oligopolistic industries (Newbery, 1991). That is, a 'wait and sees' approach could bear more fruits in terms of higher prices. Strategies that were implemented within a period of four to six weeks were awarded a 'fulfilled' mark and 'a not fulfilled' mark for lesser or more periods. The 'period' covers a span of time between identification of issues and sale preparations.

3.4.1.6 Criteria for strategy formulation

Criteria for strategy formulation is an important tool which formulators must be equipped with. Although strategy formulators are expected to be experts, yet they need guidance by which to abide. The criteria are usually issued by the government, which represents the owners of the state enterprises. Existence of such a criterion gives direction of work, reduces the margins of subjectivity among formulators, and minimizes chance for external interference into the sub-process. Criteria form a link between the privatization objectives and the strategies being formed. Where such criteria are issued before commencement of the privatization exercise, strategy formulators are likely to come-up with correct choice of strategies and ultimately higher prices (Pearce et al, 1997).

The government of Tanzania issued guidelines in 1996 while the privatization exercise started in 1992. All privatizations that took place between 1992 and 1996 were awarded a 'not fulfilled' mark and those from 1997 onwards a 'fulfilled' mark.

3.4.2: Secondary factors

3.4.2.1 Approval by parliament

Approval of the formulated strategies must be sought not only from the Government but also from parliament before the privatization agency applies them. But, is this the ideal situation? Logically, in truly democratic society, the approval process should not end at cabinet level; it should be tabled before Parliament or in situations of urgency to a parliamentary committee charged with privatization matters. It is the members of parliament who are politically accountable to the citizens they represent and are empowered by the law to curb any abuse of office by either Cabinet or civil service in general. And privatization is one of such areas where such abuses of public office are rampant (Wei, 1998; Rose-Ackerman, 1996). Parliamentary approval curbs public office abuse, also reduces public discontent on privatization exercise and increase probability that public interest comes first. Ultimately adherence to this process would lower risk and trickle down to correct strategy formulation and higher prices.
Privatizations whose strategies were forwarded for approval by Parliament were awarded a 'fulfilled' mark and a 'not fulfilled' for cases not forwarded to parliament.

3.4.2.2 Debt absorption/ write-off

Debt absorption/ write-off measure is one among many restructuring policies undertaken prior to privatization. Debt write-offs by governments allow new owner to optimally redesign the capital structure (Bolton et al, 1992). There is little gain in passing debt across to the private investor-since for every penny of debt the bid price will be lower. Absorbing debt by the private buyer may have a negative effect on prices if the borrowing terms for the private buyer are worse than those for the former parastatal-which is likely in most cases. The reason being that, financial institutions regard private investors as riskier borrowers compared to public enterprise that enjoys government guarantees. Hence, private investors are charged a higher rate of interest, which is later, reflected in the lower price that they offer for the enterprise. (Donaldson et al, 1995).
Strategies which wrote-off previous debts owed to parastatals by various stakeholders were awarded a 'fulfilled' mark and a 'not fulfilled' mark otherwise.

3.4.2.3 Participation of managers

Ideally the strategy formulators should come from all company levels (corporate, business & functional). Such participative approach enhances company ability to prevent problems during implementation (Pearce et al, 1997: 5). Subordinates who are aware of the needs of strategic planning aid managers who encourage subordinates to participate in the planning process in their monitoring and forecasting responsibilities. The involvement of employees in strategy formulation improves their understanding of product-reward relationship in every strategic plan and, thus heightens their motivation. A related issue is management shake-ups before privatization that may lower premiums if the loss of experienced management results in declining performance (Bolton et al, 1992). Privatizations that business and functional managers participated were awarded a 'fulfilled' mark and a 'not fulfilled' mark otherwise.

3.5 The Data

3.5.1 Data analysis

The data was analysed by using simple descriptive statistical methods namely percentages, averages, ratios and correlation.

It was done in the following way. *Percentage ranking* of total observations was used to gauge the effect of the factors on the formulation of privatization strategies. The hypothesis was that the larger the share of 'fulfilled' cases of the factors on formulation of privatization strategies the the more likely was it that, the privatization process was likely to yield the desired results (higher prices and subsequent higher revenue). To test whether there were any significant differences in formulation of privatization strategy between the different subgroups (time, location, type of business), a chi-square test was used.

3.5.2 Results for the material as a whole

Table 3.2 below presents a summary of distribution of privatized state owned enterprises in the case study according to privatization strategies.

Table 3.2: Case study distribution according to Strategies[7]

Type of Strategy	Number of Privatization	%
Asset sale	23	50
Shares	18	39
MEBO	03	7
Receivership	02	4
Total	**46**	**100.0**

Source: Field survey, 2003.

Observation from table 3.2 above reveals that trade sale strategy led the race, followed by shares, then MEBO and lastly receivership.

Table 3.3 below presents a summary the results for the selected firms in relation to the nine theoretical factors affecting formulation of privatization strategies as discussed in section 3.4 above.

Table 3.3: Aggregate reults (Factors affecting formulation of strategy)

Factors / Criteria	*Fulfilled*	%	*Not Fulfilled*	%
1. Bidding/Competition	18	*39*	28	*61*
2. Majority influence	34	74	12	*26*
3. Professional	36	*78*	10	*22*
4. Remuneration	11	*24*	35	*76*
5. Speed of strategy	10	*22*	36	*78*
6. Criteria for strategy	20	*43*	26	*57*
7. Approval of strategy	11	*24*	35	*76*
8. Debt Write-off	33	*71*	13	*29*
9. Managers paticipation	10	*22*	36	*78*

Source: Field survey, 2003.

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[7] *Notes for table 3.2:*
(1)Share strategy is considered more competitive because bidding was open even to foreign buyers. (2)Asset sale is considered as non-competitive because bidding was restricted to local buyers and had restrictive terms of payment. (3) MEBO is considered as competitive because it widened ownership to employees and managers. (4) Receivership is considered as non-competitive because bidding was restricted to local buyers, the subject parastatal was in financial distress and terms of payment were restrictive.

Results from table 3.3 above show that only in three out of nine criteria was there a clear majority of cases where the criteria 'fulfilled' the requirements of the evaluation benchmark. The criteria that was fulfilled in most cases were: *Majority influence of the new owner, professionals formulate strategy, and debt write-off.* Two criteria were fulfilled in around 40% of the cases. These were: *bidding/ Competition, and criteria for strategy formulation.* The remaining four criteria were only fulfilled in around 20%. These were: *Remuneration to professionals, speed of strategy formulation, approval of strategy and participation of Managers.*

3.5.3 Result for different time periods

Table 3.4 below presents results of factors affecting strategy formulation in different time periods. The time is split into early period (1992 – 1996) and later period (1997 – 2000). Under the second column in the table, number 1 means that the criteria is fulfilled, while 0 means that it was not fulfilled. Similarly, under the third and fourth columns number 1 denotes early period and number 2 denotes later period respectively.

Table 3.4: Change over Time (Chi-square input)[8]

Factors/Criteria	*Fulfil/ Not*	*Early (1)*	*Late (2)*	*Total observation*		*(%)*
1. Bidding/Competition	1	12	06	18		39
	0	23	05	28	46	61
2. Majority influence	1	20	15	35		76
	0	05	06	11	46	24
3. Professional formulate strategy	1	19	16	35		76
	0	06	05	11	46	24
4. Remuneration to professionals	1	07	09	16		35
	0	18	12	30	46	65
5. Speed of strategy formulation	1	05	06	11		24
	0	20	15	35	46	76
6. Criteria for strategy	1	05	16	21		46
	0	20	05	25	46	54
7. Approval of strategy	1	07	07	14		30
	0	18	14	32	46	70
8. Debt write-off	1	19	16	35		76
	0	06	05	11	46	24
9. Participation of managers	1	06	06	12		26
	0	19	15	34	46	74

Source: Field survey 2003

[8]Notes on Table 3.4:
(1) Criteria: fulfill = 1, Not fulfill = 0.
(2) Time: Early (1992 – 96)= 1, Later (1997-2000)= 2.

In table 3.5 below the significance values for the different criteria from the chi-square test are presented.

Table 3.5: Summary of Significance values (Change over*Time*)

Factors/Criteria	Significance value
1. Bidding/Competition	.230
2. Majority influence of new owners	.497
3. Professional formulate strategy	.988
4. Remuneration to professionals	.292
5. Speed of strategy formulation	.497
6. Criteria for strategy formulation	.000
7. Approval of strategy	.695
8. Debt write-off	.230
9. Participation of managers	.725

Source: Field survey 2003

As can be seen in table 3.5 above, the only change that is significant using standard significance levels (0.05) is criteria number 6 (criteria for strategy formulation), where fulfilment were increased over time. Some improvement, but not statistically significant was observed for criteria number 1 (bidding/competition).

3.5.4 Result for different locations

Table 3.6 below presents results of factors affecting strategy formulation in different locations. The regions are divided into Dar Es salaam (includes Dar, Coast & Morogoro) and Others (covers the remaing regions of the country). Under the second column in the table, number 1 means that the criterion is fulfilled, while 0 means that it was not fulfilled. Similarly, under the third and fourth columns number 1 denotes Dar region and number 2 denotes other regions respectively.

Table 3.6: Differences between regions (Chi-square input)

Factors/Criteria	*Fulfill/ Not*	*Dar (1)*	*Others (2)*	*Total observations*		*(%)*
1. Bidding/Competition	1	04	08	12	46	26
	0	20	14	34		74
2. Majority influence	1	18	17	35	46	76
	0	06	05	11		24
3. Professionals formulate	1	17	14	31	46	67
	0	07	08	15		33
4.Remuneration to professionals	1	10	06	16	46	35
	0	14	16	30		65
5.Speed of strategy	1	08	08	16	46	35
	0	16	14	30		65
6.Criteria for strategy	1	09	11	20	46	43
	0	16	10	26		57
7. Approval of strategy	1	05	06	11	46	24
	0	19	16	35		76
8.Debt write-off	1	18	15	33	46	72
	0	06	07	13		28
9.Managers participation	1	08	04	12	46	26
	0	16	18	34		74

Source: Field survey 2003

In table 3.7 below the significance values for the different criteria fromthe ci-square test are presented.

Table 3.7: Summary of Significance values (differences btwn regions)

Factors/Criteria	Significance value
1. Bidding/competition	.129
2. Majority influence of new owners	.857
3.Professionals formulate strategy	.603
4. Remuneration to professionals	.306
5.Speed of strategy formulation	.829
6. Criteria for strategy formulation	.264
7. Approval of strategy	.609
8. Debt write-off	.608
9.Managers participation	.242

Source: Field survey 2003

As can be seen in the tables 3.6 and 3.7 above, there were no significant difference in how the criteria was fulfilled in different regions. The criterion that was closest to being significant was bidding/competition, which was more often fulfilled outside Dar es Salaam region.

Table 3.8 below presents results of factors affecting strategy formulation in different type of business. The businesses are divided into two broad groups, factories and commercials. Under the second column in the table, number 1 means that the criterion is fulfilled, while 0 means that it was not fulfilled. Similarly, under the third and fourth columns number 1 denotes factory business and number 2 commercial business respectively.

Table 3.8: Difference between types of Business (Chi-square input)

Factors/Criteria	*Fulfil/ Not*	*Factory (1)*	*Commer' (2)*	*Total Observations*		*(%)*
1. Bidding/competion	1	10	06	16	46	35
	0	22	08	30		65
2. Majority influence	1	24	10	34	46	74
	0	08	04	12		26
3.Professional formulate	1	24	09	33	46	72
	0	08	05	13		28
4. Remuneration to profess'	1	18	06	24	46	52
	0	14	08	22		48
5. Speed of strategy	1	12	05	17	46	37
	0	20	09	29		63
6.Criteria for strategy	1	15	05	20	46	43
	0	17	09	26		57
7.Approval of strategy	1	08	06	14	46	30
	0	24	08	32		70
8. Debt write-off	1	26	10	36	46	78
	0	06	04	10		22
9.Managers participation	1	12	05	17	46	37
	0	20	09	29		63

Source: Field survey 2003

In table 3.9 below the significance values for the different criteria from the chi-squre test are presented.

Table 3.9: Summary of Significance values (differences btwn business)

Factors/Criteria	Significance value
1.Bidding/competition	.447
2. Majority influence of new owners	.800
3. Professional formulate strategy	.458
4. Remuneration to professionals	.403
5.Speed of strategy formulation	.908
6.Criteria for strategy formulation	.482
7.Approval of strategy	.226
8. Debt write-off	.457
9. Managers participation	.908

Source: Field survey 2003

As can be seen in the table 3.9 above there were no significance difference in how the crirteria was fulfilled for different types of business. The criteria that was closest to being significant was the approval of strategy which was more often fulfilled for commercial firms.

3.6 Discussion and conclusion

3.6.1 Discussion

With regard to share packages, the result was that in all enterprises sold, the government retained minority shares. This is in line with the ongoing economic reforms whereby the government is retreating from running any business enterprise, leaving this arena to private sector domination.

Concerning strategy formulators, these should be experts in the line of business the enterprise is operating. The few exceptions that emerged here were the early privatizations that took place before PSRC was born in 1993. During that time, bureaucrats in the parent ministry were making decisions regarding which strategy to divest an enterprise.

Similarly, during the early days of privatization exercise, funds to pay experts who formulated strategies were resourced from where the experts came from (ministry or parastatal). This situation created disparities with some of the committee members being paid below market rates, depending on the financial capability of the source ministry or parastatal. The situation was redressed later (1996) when PSRC became responsible for the payments to all experts.

In respect to strategy formulation criteria, it is unfortunate that between 1992 and 1996, formulators were left on their own without guidance. The government stepped-in only after irreversible errors had already been committed. For example, some closed down enterprises that were to be divested by asset sale strategy were instead divested by share sale. Similarly, some enterprises still in operation that were to be divested by share sale were instead divested by asset sale strategy Etc.

With regard to approval of strategies by parliament, the area leaves much to be desired. The reason put up by government for not seeking parliamentary approval is delays. If anything, it is the government that delays decisions. There are a good number of cases where the cabinet stayed undecided for more than six months.

As for the debt write-offs, most of these were in form of bank overdrafts, bills from utility companies, and workers' contributions to pension funds. These were taken over by government and the sum amounted to Tshs 305 billions[9]. The three cases cited were foreign debts that were passed over to foreign investor.

In regard to competition/bidding, the process should have been open to all investors, thereby stimulate competition and increased chances of better prices. The study revealed that foreign investors were in most cases invited to participate in enterprises that were still in operation. For the enterprises that had closed down advertisements and invitations to tender were made to the local press that foreign investors had no access to. PSRC opened-up website page that could be accessed worldwide in the year 2001. In the real sense, it is the closed down enterprises that were in dire need of capable investors from outside the country.

With respect to speed of privatization, most of the delays were attributed to the government approval machinery. It was not possible to get explanation on delays attributed to the cabinet. However, at PSRC level, delays were attributed to pressure of work on the part of consultants and absenteeism by team members from without PSRC.

Participation by managers was evident in all privatizations carried-out by MEBO. The reasons given by PSRC for the non-participation is that most managers would let the process of strategy formulation drag on for a long time, hence causing delays for other stages to take place, because most managers were against privatization any way, for fear of losing their positions.

Concerning strategy formulation process in its totality, when the 'fulfilled' cases are greater than the 'not fulfilled' cases, the implication is that the current practice in strategy formulation was effective as it is likely to stimulate higher competition among bidders. Consequently resulting higher prices which will in turn increase government revenue realized from privatization. And the opposite is also true when the 'not fulfilled' cases were greater than the 'fulfilled' cases.

The results show that in three out of nine factors did 'fulfilled' effect dominate in the responses, whereas in the remaining six out of nine factors the 'not fulfilled' effect did dominate. These findings indicate that the present strategy formulation process as

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[9] President Benjamin Mkapa's speech at Morogoro, June 29th 2002;
USD 1= Tshs. 1,000.00, December 2002.

practiced by PSRC was not likely to promote higher competition from bidders. To that effect the resultant lower prices realized are likely to translate into lower government revenue generated by the privatization exercise. If better results were to be expected, deliberate efforts should aim at reversing the trend observed in factors that featured prominently in the ‘not fulfilled’ cases.

In all chi-square tests performed the respective significance values were higher than 0.05 indicating, except in one case. This implies that fulfillment of strategy formulating criteria did not depend on time, location and line of business.

3.6.2 Conclusion

It is evident from the above results and discussion that, strategy formulation being undertaken by PSRC did not promote higher competition, higher prices and higher government revenuein the best way. In order to improve the effectiveness of the strategy formulation process so that it yields better results compatible with the privatization objectives, the following deliberate measures need to be considered: (1) All strategies formulated by PSRC should be approved by parliament; (2) Strategy Formulators should be remunerated at market rates; (3) Speed of privatization should be regulated to six months; (4) Participation by managers should be encouraged; (5) Privatization through the modality of “asset sale”should either be discouraged or carried out in better ways such as through sale by public auctions, as of now only sale by tender method is currently in use; and (6) Strategies that promote wider ownership and higher competition such as Public share offering and Collective investment programs should be encouraged.

CHAPTER FOUR
VALUATION METHODS

4.0: Introduction

A successful privatization program entails a number of preparations; one of them is sale preparation. During sale preparations, both the private investors buying the state owned enterprises and the sellers (governments) do rely on valuation process to ascertain that a fair deal is struck between parties to the transaction. Not only that, accurate valuation of state owned enterprises is necessary in instilling public confidence that state assets are neither overvalued nor undervalued. Important as it is, Valuation is not a precise science, but it provides benchmarks against which the acceptability of a given price is ultimately judged.

4.1: Purpose

In many privatization programs sale preparations includes asset valuation, preparation of information manual for the subject enterprise, marketing the enterprise so as to stimulate interest among the would-be buyers, invite bids through local press and abroad where necessary etc. Not withstanding the above, the following part of the study will dwell on only one item in the sale preparations namely; asset valuation because embarking on the entirety is a mammoth task, which may not produce any meaningful results in the end.

A private company or state enterprise is worth what people are willing to pay for it. Hence the old saying, *value is in the eyes of the beholder*. Asset valuation is the process of estimating this value. Valuation is more of an art than a science. Buyers will value a company or a set of assets differently, depending on the synergies they perceive between their own company and a potential acquisition. The greater the synergies, the more they would be willing to pay and ultimately, the higher the price (Welch and Fremond, 1998). On the other hand, the value of a state enterprise being privatised may significantly differ depending on the divestiture method selected by the government. For instance, if all other things remain equal, sale proceeds will likely be higher if the government chooses to sell an enterprise by open tender than if it chooses an initial public offering. Although the latter method is politically popular, it has financial costs, namely, lower sale proceeds (Welch and Fremond, 1998:22).

Substantial amount of the worlds' economic resources is in fixed assets, importantly including land, buildings, machinery and equipment. The majority of individuals and enterprises owning or transacting these fixed assets would want them accounted for and reported in some fashion; and real property valuation has always evolved around this need (Horsley, 1991). Both the private investors buying the state owned enterprises (SOEs) and the seller [government] do rely on valuation process to ascertain that a fair deal is struck between parties to the transaction (Welch & Fremond 1998). Investment buyers that overpay for a SOE cannot meet their target rate of return from the acquisitions, and shareholder value will decrease. The government, on the other hand, has a fiduciary responsibility to its citizens when it privatizes the SOEs. It is entrusted to sell the SOEs at or above their market value. Agreeing to sell state assets below their market value not only denies the state of the needed revenue, but could as well be politically costly if citizens suspect fowl play such as nepotism or corruption. Sometimes it may be politically desirable to sell the SOEs at below their market value, for example where a policy of national interest is being promoted such as management employee buyouts or empowering indigenous investors. In such situations, transparency is crucial. That is, the size of the discount offered should be determined and publicly disclosed.

An attempt must be made to avoid the public perception that state assets were either undervalued and sold too cheaply or that they were overvalued and could not be sold because prices were too high to attract investors' interest (UN, 1993). This implies that a proper valuation of state assets is of paramount importance. A proper valuation will serve; at least as a benchmark or as a floor to sales price even when there is only one buyer.

On the one hand there is a growing public concern that the former state owned enterprises (parastatals) were being sold to private investors at very low prices[10]; while on the other hand, inside the Parastatal Sector Reform Commission (PSRC) consultants were concerned that real property values as assessed by various Valuation firms were much higher when compared to what prospective investors were prepared to offer in the open market.[11]

Flowing from the above concerns the purpose of this study is two-fold first, to formulate a criteria by which to evaluate the valuation methodology deployed in the valuation of state owned enterprises and second, to examine whether or not the valuation methodology adhered to the criteria. That is, the study sets out to investigate into the adequacy of the valuation methodology used by various valuation companies prior to the privatization of the state owned enterprises (SOE). On the basis of the above purpose, the main research question that guides this study is in two parts first, how were the valuation of state owned enterprises undertaken prior to evaluation of bids? Second, how good was the valuation methodology?

4.2: Valuation theory

4.2.1: Different types of assets

Traditionally, company assets are classified into: *current assets, intangible assets and fixed assets*. Many practical problems surface in relation to the valuation of assets: First, net asset position shown on the balance sheet is conventionally based on historical costs, without taking into account any subsequent changes in value and asset conditions. Second, some items such as land; certain intangibles; liabilities such as pension benefits, post retirement health-care costs; and contingencies for environmental damage may go

[10] Business Times, October 25th 1999; The Guardian, November 11th 1999.
[11] Interview with consultants at PSRC, August 10th 2000.

missing from the balance sheet because the accounting principles do not mandate their recording. Finally, assets are valued according to their existing use even though they could have a potentially higher alternative use - for example, the case of a redevelopment inner city land site.

Current assets include petty cash; cash in bank, accounts receivable and inventories (Glautier et al, 1991). Bad debts by major debtors, inventories that are obsolete or slow moving or even fast moving, do present special valuation problems that could lead to either under or over valuation of current assets. In practice either current reproduction cost or replacement costs methods are used to value current assets while taking account of future prices and inflation trends.

Intangible assets include licenses, leasehold rights, franchises, patents, brand names, intellectual properties, goodwill etc (Ibid.). Intangible assets contribute to enterprise as going concern; they have to be assigned value (Campbell, 1991). Two methods used in the valuation of intangible assets are either Discounted Marginal Revenue (for brand name & related assets) or Discounted Earnings (for goodwill & related assets) Potential strategic investors tend to prefer the discounted cash flow valuations because their results easily compares with market valuations of comparable quoted companies, and with prices paid by other buyers in recent comparable transactions. Their discounted cash-flow valuation is generally a significant component in their offer (Welch and Fremond, 1998; UN, 1993).

Fixed assets include land, buildings, plant, machinery and equipment (UN, 1993.).
Land should be valued at its *market value* for existing use, assuming continuing use in the same or similar business. Buildings, plant, equipment and other productive assets should be valued at the higher of market value and value in continued use, which is often taken to be the *depreciated replacement cost*. This valuation method often produces a much higher value than other methods because a decision to build a factory for production of certain goods in a particular location may not have been motivated by pure economic considerations. Social or political considerations such as creation of employment may have prevailed over economic considerations. (Welch and Fremond, 1998; UN, 1993.).

4.2.2: Valuation concepts (Market Value)

The first academic attempts to explain market value were developed by the classical school of economics as led by Adam Smith and David Ricardo, who regarded value as being an intrinsic part of commodities. It was then believed that a combination of factors of production namely, land, capital and labor necessarily created value (Mcknight, 1994). Over time other scholars discovered that some other factors had an influence on value. The Austrian economists were the first to name these factors as led by Carl Menger in the late nineteenth century. They demonstrated that value is a product of a commodity's *marginal utility*. Since then other scholars modified and polished this basic idea (Ibid).

A number of definitions of market value that follow here below will illustrate the above:

- *'The most probable selling price….(given a period of time…in accordance with the typical market behavior for this kind of property).'*(Ratcliff, 1968:36,38).
- *'In economics the term Value means the rate at which a particular good or service will exchange for other goods or services'* (Harvey, 1978: 49).
- '*The most probable price, as of a specified date,…for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self interest, and assuming that neither is under undue duress'*(The American Institute of Real Estate Appraisal, 1992: 20).
- *'Market value is the estimated amount for which an asset could exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after a proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion''*(TIAVSC, 1995)(10).

Recent years have witnessed growing interest on the long time controversy surrounding the definition of market value. In an attempt to solve the above problem, Lind (1998:172) discussed three criteria for a good definition of market value:

- '*The definition should be clear*.'
- '*In many cases, it should be possible to know the market value with a reasonable degree of certainty*.'
- '*The market value should be relevant for most actors on the market most of the time*.'

In making reference to specific contents of the standard definitions outlined above the scholar (Ibid.) pointed out that 'the definition shall not include redundant components that make no addition to the content of the definition'. Along this line and on the basis of the three criteria for a good definition of market value as outlined above, special attention was drawn to three components of market value definition and concluded as follows (Ibid: 172-3):

- '*The definition should not include references to the prudence and knowledge of the buyers and sellers, primarily because this leads to a definition with questionable relevance for a market with very heterogeneous agents.*'
- '*The definition should not include a reference to willing buyer and willing seller, primarily because these terms are redundant given the condition of proper marketing*.'
- *'The reference to expected price or most probable price in the definition of market value, should be interpreted in terms of rational degree of confidence in a price in a certain interval and not in terms of relative frequencies*.'

In the end Lind concedes that there are situations whereby the concept of market value may be difficult to apply particularly in thin markets where evidence is very weak. He thus suggests that the role of an expert should be limited to making systematic presentation of the evidence and letting the actors on the market draw conclusions about what to do-since market value is impossible to know.

The present study believes that Tanzania is one of those situations where the concept of market value may be difficult to apply because market evidence is very weak.

4.2.3: Valuation methods

Methods of valuation are plenty (comparative, cost approach, income approach etc) but this study has dwelt on two, comparative and business. The reason being that these two are frequently used in valuations for privatization.

Comparative method of valuation entails comparing sale of a company as one-whole or comparing transactions of a set of assets belonging to a company. The method is particularly appropriate when an enterprise is being entirely or partly privatised through a stock exchange. The principle underlying the method is that market value can be determined by applying a series of empirically derived valuation multiples to their latest financial results. The most commonly used multiples are *turnover*, *operating income* (before interest and taxes), and *net earnings* (price - earnings ratio). Differences between companies must be carefully considered and appropriate adjustments be made (Welch and Fremond, 1998).

Business Valuation is undertaken only after net asset valuations have been performed and accounts restated in accordance with the international standards (UN, 1993). Business valuation is usually based on the enterprise's present activities and future profitability prospects. Business value is defined as *a value enhancement that results from items of intangible personal property such as marketing & management skills, an assembled work force, working capital, trade names, franchises, patents, trade marks, contracts, non-realty leases, and operating agreements* (The dictionary of real estate appraisal). Estimated future earnings and return on investment constitute two key elements in business valuation that underlie the various techniques employed to establish the monetary sum. Two mostly used methods in business valuation are the discounted cash flow and price-earnings method (UN, 1993.). On the other hand, going-concern value is defined as *the value created by proven property operation…. it refers to the total value of a property including both real property and intangible personal property attributed to business* (Appraisal Institute, 1992). It is the total value based on income generated from all of an operation's components. In other words, going-concern value is much broader encompassing both asset and business values. Both business value and going-concern value are best derived by the discounted cash-flow method of valuation.

4.2.4: Valuation Standards

Invariably a code of practice for any profession (in this case valuation) is drawn from regulations, policy memoranda of a professional body or central government statutes or local government bi-laws. Such a code of practice sets rules of conduct to be adhered to by all members in the profession. It is these rules of conduct that have come to be known as standards. Valuation standards refer to a simple guide, directive, a pattern or some principles outlined which are systematic that have to be followed by valuers (Woods, 1973). These standards include reporting, units of measurements, use of methods of valuation, use of assumptions in valuation, inspection and referencing of property, purposes of valuation, qualification of valuers, conflict of interests, bases of valuation etc (Fernandez, 1999). The aim of having these standards is to avoid chaos and misunderstandings within and outside the profession. Standards thus improves communication among valuers in the first place and between valuers and other professions like accountants, auditors, investment analysts etc.

Valuation standards range from country level to regional and even global level. According to Horsley (1991: 1) The International Assets Valuation Standards Committee (TIAVSC) was born in 1982. TIAVSC grew from the success of the Royal Institution of chartered surveyors (RICS) in the United Kingdom, and later that of other European Valuers who were able to have valuation standards incorporated into the Laws of the European Community in the mid 1970's. Simultaneously, developments in Japan, Australia, New Zealand, Canada, the USA and other countries and the growth of International business and investment activity, led to a distinct need for international valuation standards.

Naturally standards differ among nations, TIAVSC is there to identify these differences and to reduce real property market misunderstandings, both for Participants (Buyers, sellers, Investors & developers) and professionals (valuers, auditors, accountants, investment analysts etc.). TIAVSC Standards include among others: GN 1 and BP1 which deals with classification of fixed assets; GN2 which establishes the standard for an asset valuer, and GN3 and BP2 which provide basic standards for the valuation of land and buildings. This standard states "the basis of valuation of land and buildings as fixed assets for financial statements must reflect the fact that these assets are in current activities." Conceptually, the valuer should approach the assessment of land and building value on the basis of value in the open market, or where a market value cannot be assessed; depreciated replacement cost.

4.3: Valuation Practice in Tanzania

Valuation practice in Tanzania evolves around two major historical epochs, a period before political independence in 1961 and a period after independence.

Before independence (1961) the growth of the valuation practice can only be traced by tracking colonial government statutes, which in one way or another required some kind of valuation, carried out. In the *township ordinance cap. 101 0f 1920* the rates were to be based on the *gross annual value* of the buildings. This was the first time in the then Tanganyika[12] valuation practice was implicitly called for action. The *house tax ordinance cap. 184 of 1922 provided* that the basis of tax shall be the *net annual value* of a house in townships. The *municipal house tax ordinance cap.185 of 1925* provided for a tax based on the *net annual value* of a house in municipalities. The *land acquisition ordinance cap. 118 of 1926* provided for valuation for compensation for the land acquired by the

[12] The name changed to Tanzania in 1964 after political unification between Zanzibar and Tanganyika.

governor. Throughout this period (up to 1945), any appointed government officer could carry out a valuation, there was no requirement of a trained valuer. The *municipalities ordinance cap. 105 of 1946* provided for property rates based on *capital value* of buildings. It was this statute which explicitly stated that a valuation was to be undertaken by a competent person or a valuer. Throughout the British rule valuation was the responsibility of the department of public works and remained there even after independence until 1968 when it was moved to the ministry of lands and housing (Mwasumbi & Rwechungura, 1998).

After independence (1961) there were deliberate efforts to increase the number of trained valuers. To start with a number young men were sent abroad for training, but a real break through came with the establishment of a training institute in 1974 known as Ardhi Institute. The institute was subsequently transformed into a university college in 1996 under a new name, University College of Lands and Architectural Studies (UCLAS) and later in 1997 the college was transformed into full-fledged university with a new name, Ardhi University. The university produces an average of 50 valuation graduates every year, as of today Tanzania has about six hundred qualified valuers working both in government service and in twenty-six valuation companies that are registered with the National council of professional surveyors (NCPS; 2001).

Initially, the valuation department dealt with assessment of compensation for land acquired by the government, but later its duties broadened to cover other valuations like; mortgage, sale, Insurance and so on. During all this period up to 1967 transactions in the real property market were freely conducted with minimum state intervention. Then came the Arusha Declaration in 1967, through which all major means of production and exchange were placed under state control. The country embarked on a rapid transformation process into a socialist state. The declaration was followed by massive nationalization of big agricultural farms, factories, business firms and buildings whose value were more than T.shs.100, 000[13]. This exercise sent shock waves and chills to the real property market operations, including real estate valuation (Madono, 1983).

Thus after 1967 there were generally no open market for most types of real property in Tanzania. The little that existed was usually shrouded in secrecy and the considerations alleged could not be taken to reflect true open market values, which are prerequisite for any valuations, based on open market conditions. It is with this background that the Replacement cost method of valuation was seen by many valuers as the only appropriate technique by which to value all landed properties except where the law dictated otherwise (Masebu, 1991).

The national council of professional surveyors[14] (NCPS) is a statutory body responsible for valuation practice in Tanzania as provided by the professional surveyors (Registration) act of 1977. According to section 5 of the act, the functions of NCPS include: registration of surveyors, to regulate standards of conduct and practice, to promote training and research, and to provide technical support. Specifically, section 3 of

[13] In 1967, $1 = Tshs.5.00
[14] The term surveyor includes land surveyors and valuation surveyors.

NCPS requires the council to set and regulate standards of conduct and activities of professional surveyors. Unfortunately, NCPS has so far not made any major headway in the setting and regulation of standards (Mwasumbi and Rwechungura, 1998). Nonetheless, since Tanzania is member of IVSC, it is expected that valuers practicing in Tanzania be bound by standards in this international body.

Therefore when valuations for privatisation took off in Tanzania in 1992, the problem of lack of comparable data to facilitate more market oriented valuation techniques was still prevailing.

4.4: Valuation in privatization

In 1990 the former Germany Democratic Republic started to privatise 12,036 state owned enterprises together with 25 billion square meters of land and 9.6 billion square meters of forest. All these assets had to be valued before their privatisation, a program that had to be completed by the end of 1993. As a general valuation principle, it was assumed that the state owned enterprises would be sold as going - concerns, otherwise a liquidation sale was assumed. A number of specific valuation problems arose (UN, 1993):

- *Real estate:* the market value was difficult to estimate because there were no market for land and buildings. The valuation method used entailed comparisons with properties in similar cities and towns in western Germany. However it was difficult to relate values to other towns or regions or countries because of differences in demand and supply factors. Experts from western Europe did most of the valuations.
- *Machinery and equipment:* despite the problems related to lack of records indicating the status of maintenance and repairs, comparison with similar machines from the western countries formed the basis of valuation.
- *Inventories:* overstocking of finished goods, raw materials and spare parts were common. Through use of depreciated replacement cost method these assets were depreciated to take care of obsolescence precipitated by changes in markets for the produced goods.

In this valuation exercise, many value judgements were required, more than it is when valuing business in Western Europe. Some cases of excess conservatism and over-optimism naturally occurred, considering the shortage of time to complete the work. There were criticism that some business enterprises have been sold at very low prices, based upon the valuation of individual assets and liabilities. In response to the above criticism, the new valuation guidelines provide that the fair market value of the enterprise as a going concern be considered.

Similarly, in 1990 the government of *Czechoslovakia* started to privatise the state owned enterprises. It was not practical to value all the enterprises because they were too many to be valued. Only enterprises seeking foreign capital were required to have their properties valued. All business enterprises being sold to local citizens were valued at historical cost as it appeared in their book value less accumulated depreciation. This valuation principle covered all assets namely, buildings, machinery and equipment. The valuation of buildings based on book value were in most cases overstated because the depreciation allowances deducted were very low between 1 and 1.5% per year. However, considering that most of these buildings were rebuilt prior to their privatisation and that such costs were not added to their historical costs, the net book values are low and did not correspond to fair market value.

Where an enterprise was to be sold to foreign investors, valuation was carried out according to internationally accepted valuation methods. In this respect, a fair market valuation is obtained which attempted to approximate prices in other countries. In the end the valuation had to get the approval of the ministry of finance, and very often assistance from foreign consulting firms was sought (UN;1993).

4.5: Formulation of evaluation criteria.

This section is about evaluation criteria that would be used to evaluate the valuation methodology. In order to evaluate the valuation methodology it was necessary to put in place evaluation criteria.

The evaluation criteria was formulated based on information sought from individual valuers practicing in the field. These valuers performed the valuations for privatization while being workers of the twelve valuation firms, which were contracted by PSRC. It was believed by contacting the valuers directly would cut down delays, get the first hand information from the ground and make the valuers feel that they are important people-hence make them to cooperate in the study. A questionnaire was posted by mail to fifty individual practicing valuers who had participated in the valuation of state owned enterprises before their privatization. In this questionnaire there were two main questions, first, in your opinion what factors affected valuation results of the privatized state owned enterprises? Second, how did each factor affect valuation results? In a span of two weeks from the date the questionnaire was posted, responses came in. The response rate was good because thirty questionnaires out of fifty questionnaires posted were returned with answers (60%). A total of sixteen factors were listed, nine factors appeared in all thirty questionnaires and were well explained as to how each affected valuation results, six other factors appeared in ten questionnaires with very bare and unconvincing explanation of how they affected valuation results. The researcher picked the nine factors that were properly explained and listed by all respondents as being true representative of the entire population. It is these nine factors that appear in this study as evaluation criteria. With the valuation criteria ready, a stage was now ready for the take-off of the major fieldwork.

The following section outlines nine evaluation criteria by which to test the valuation methodology in Tanzania as applied to state owned enterprises, which were privatized since 1992.

Criteria 1: Selection of Valuation firms
It was a standard practice that all valuation jobs had to be advertised in the local papers by the privatization agency, PSRC. Interested valuation firms submitted both their

technical and financial proposals. Selection was then done on the basis of competence of manpower available, speed of completion, cost of doing the work, previous work experience etc. Ideally a valuation firm that would score highest point, in the selection criteria would be the right candidate for the job award; if the selection process were to be conducted in a transparent way. Any departure from the above procedure was likely to result into selection of less competent valuation firms, which in turn could impair the quality of valuation estimates.

Criteria 2: Engagement of Specialist Valuers.
There is no doubt that assets possessed by state owned enterprises vary a lot in their composition and technical sophistication. While some of the enterprises comprised of simple buildings, others comprised of very complex plants and machinery like those seen at beer and cigarette factories. The latter category of assets obviously needs the attention of specialist valuers. Unfortunately, given the young state of the valuation profession in Tanzania, such specialist valuation services have to be imported from countries with more advanced valuation firms like the USA or UK.

Criteria 3: Method of valuation deployed
The state owned enterprises that were privatized in Tanzania fell under two broad categories namely those whose business had long closed down, and those, which were still in business. The appropriate valuation method for the former category, which basically entails fixed asset valuation, is sales comparison approach if market evidence is readily available or cost approach where sales evidence is scanty or not available. On the other hand, the latter category is essentially business valuation to be taken care of by either discounted cash flow technique or price earning method. The standard cost approach model is expressed as: market value (v) = replacement cost new(r) *less* accrued depreciation (d) *Plus* land value (l). We may wish to consider the application of the depreciated replacement cost (DRC) method, which happens to be the most popular of all valuation methods in Tanzania.

A typical valuation example by DRC method:[15]

1) Total adjusted area for the buildings………..………828.1 sq. meters
2) Replacement cost @sq. meter[16]…………..................Tshs. 125,000/=
3) Replacement cost of the buildings……......................*Tshs. 102, 513,000/=*
4) *Add* cost of site works at 10%[17] of (2)…………........Tshs 10,251,000/=
5) Total replacement cost (3 & 4)……………….............*Tshs. 112,764,000/=*
6) *Less* depreciation allowance at 60%[18]……….........Tshs. 67,658,000/=
7) Depreciated replacement cost (market value)…...Tshs. 45,100,000/=

[15] Extract from Arusha regional trading company valuation report, PSRC (1996)
[16] Rate @sq.meter is arbitrary, not researched. Where extracted from building contractors it is usually 20-30% higher for government-funded projects as compared to privately financed projects.
[17] Arbitrary adjustment, not researched.
[18] Depreciation takes account of age of the building only, ignoring other forms of obsolescence e.g. functional.

Criteria 4: Valuation standards
In order to come up with accurate valuation estimate, it should be prepared in manner and presented in a format that is acceptable and understood within and to the world of other professions out there. This presupposes existence of a code of conduct, which must be adhered to by all valuers carrying out such value estimates. For instance in the UK valuers adhere to standards stipulated by RICS. In Tanzania, the NCPS has done very little in this direction. Valuation firms are left alone to borrow standards from other countries, particularly those from RICS in the UK.

Criteria 5: Data availability
Comparable evidence from previous transactions forms a backbone to ay valuation work. The data to be collected should be recent, reliable, and readily available. Any difficulties related to availability or reliability of data will most likely lead to poor value estimates or will render market approaches to value less suitable. One of the sources of data is Estate agents. Invariably, most estate agent firms do carryout valuation for their clients who may be either buyers or sellers of property. Similarly, estate agents do keep transaction data (prices and rents) for properties they sell or buy for clients.

Criteria 6: Deadline of report submission
The time by which a valuation firm must submit the report to the client must be adequate to allow good quality data collection, analysis and report write-up. A time frame of between four to eight weeks is considered reasonable. That is, where the work involved is small, up to four weeks is sufficient time and where the work is large, up to eight weeks is adequate time.

Criteria 7: Approval of valuation report
In certain countries, it is mandatory for all valuation report to get certification from a single authority such as Chief Government valuer. Such a practice is tantamount to strangling valuers' freedom to express their professional opinions or synonymous to price control.

Criteria 8: Defense of valuation report
Ideally valuers should be called upon to publicly defend their valuation reports. Such a practice instills a sense of accountability and duty of care to valuers, thereby minimizing room for negligence.

Criteria 9: Payment to valuation firms
Where Valuation firms are adequately and promptly remunerated, chances of colluding and receiving bribes from potential buyers of state owned enterprises are minimized or brought to control. Similarly, prompt disbursement of the down payment enables valuation firms to start their work at the earliest, thereby avoiding last minute rushes to meet the deadlines. Payment is considered adequate if computed according to the scale recommended by a recognized professional body.

4.6 The Data

4.6.1 Data analysis

The data was analysed by using simple descriptive statistical methods namely percentages, averages, ratios and correlation.

It was done in the following way. *Percentage ranking* of total observations was used to gauge the effect of the factors on the the valuation methodology. The hypothesis was that the larger the share of 'fulfilled' cases of the factors on valuation methodology the the more likely was it that, the privatization process was likely to yield the desired results (higher prices and subsequent higher revenue). To test whether there were any significant differences in formulation of privatization strategy between the different subgroups (time, location, type of business), a chi-square test was used.

4.6.2 Results for the material as a whole

Table 4.1 below presents a summary of results for selected firms in relatio to the nine factors affecting valuation methodology as discussed in section 4.5 above.

Table 4.1: Aggregate results (Factors affecting valuation methodology)

Factors/Criteria	*Fulfilled*	*%*	*Not Fulfilled*	*%*
1. Selection of valuation firms	34	74	12	26
2.Engagement of specialist Valuers	10	22	36	78
3.Method of valuation	16	35	30	65
4. Valuation standards	18	39	28	61
5. Data availability	14	30	32	70
6. Deadline for report submission	20	43	26	57
7. Approval of valuation report	18	39	28	61
8. Defence of valuation report	10	22	36	78
9. Payment to valuation firms	26	57	20	43

Source: Field survey 2003**.**

Results from table 4.1 above show that only in two out of nine factors was there a clear majority of cases where the criteria fulfilled the requirements of the evaluation benchmark. The fulfilled criteria were: Selection of valuation firms, and payment to valuation firms.

Three criteria were fulfilled in around 40% of the cases. These were: Deadline for report submission, valuation standards, and approval of valuation report.

The remaining four criteria were fulfilled in around 35% and below of the cases. These were: Method of valuation, data availability, engagement of specialist Valuers, and defence of valuation report.

4.6.3 Results for different time periods

Table 4.2 below presents results of factors affecting valuation methodology in different time periods. The time is split into early period (1992 – 1996) and later period (1997 – 2000). Under the second column in the table, number 1 means that the criterion is fulfilled, while 0 means that it was not fulfilled.

Table 4.2: Change over time of sale (Chi-square input)

Factors/Criteria	*Fulfil/ Not*	*Early*	*Later*	*Total Observation*		*(%)*
1. Selection of val. firms	(1)	18	16	34		74
	(0)	05	07	12	46	26
2. Engagement of specialists	(1)	05	05	10		22
	(0)	19	17	36	46	78
3. Method of valuation	(1)	15	07	22		49
	(0)	09	15	24	46	51
4.Valuation standards	(1)	08	10	18		39
	(0)	16	12	28	46	61
5. Data availability	(1)	06	10	16		35
	(0)	18	12	30	46	65
6. Deadline of report	(1)	06	14	20		43
	(0)	18	08	26	46	57
7. Approval of report	(1)	08	10	18		39
	(0)	16	12	28	46	61
8. Defence of report	(1)	05	08	13		28
	(0)	19	14	33	46	72
9. Payment to val. firms	(1)	10	16	26		56
	(0)	14	06	20	46	44

Source: Field survey 2003

In table 4.3 below the significance values for the different criteria from the chi-square test are presented.

Table 4.3: Summary of Significance values (Change over Time)

Factors/Criterias	*Significance value*
1. Selection of valuation firm	.502
2. Engagement of specialist valuers	.876
3. Methods of valuation	.037
4. Valuation standards	.400
5.Data availability	.146
6. Deadline of report	.008
7.Approval of valuation report	.400
8. Defense of valuation report	.243
9. Payment to valuation firms	.034

Source: Field survey 2003

As can be seen from table 4.3 above, the only change that is significant using standard significance levels (0.05) was criteria number 6 (deadline of report), where fulfillment were increased over time. Also not far from significant, but not statistically significant were criteria number 9 (payment to valuation firms), number 3 (methods of valuation) and number 5 (data availability).

4.6.4 Results for different locations

Table 4.4 below presents results of factors affecting valuation methodology in different regions. The regions divided into Dar Es Salaam (includes Dar, Coast & Morogoro) and Others (covers the rest of the country). Under the second column in the table, number 1 means that the criterion is fulfilled, while 0 means that it was not fulfilled.

Table 4.4: Differences between regions (Chi-square input)

Factors/Criteria	*Fulfil/ Not*	*Dar*	*Others)*	*Total Observation*		*(%)*
1. Selection of valuation firm	(1)	20	16	36		78
	(0)	05	05	10	46	22
2. Engagement of specialists	(1)	06	06	12		26
	(0)	19	15	34	46	74
3. Methods of valuation	(1)	13	05	18		39
	(0)	12	16	28	46	61
4. Valuation standards	(1)	12	06	18		39
	(0)	13	15	28	46	61
5. Data availability	(1)	07	10	17		37
	(0)	18	11	29	46	63
6. Deadline of report	(1)	10	10	20		43
	(0)	15	11	26	46	57
7. Approval of valuation report	(1)	10	08	18		39
	(0)	15	13	28	46	61
8. Defense of valuation report	(1)	07	05	12		26
	(0)	18	16	34	46	74
9. Payment to valuation firms	(1)	15	13	28		61
	(0)	10	08	18	46	39

Source: Field survey 2003

In table 4.5 below the significance values for the different criteria from the chi-square test are presented.

Table 4.5: Summary of Significance values (Differences between regions)

Factors/Criterias	*Significance value*
1. Selection of valuation firm	.755
2. Engagement of specialist valuers	.725
3. Methods of valuation	.051
4. Valuation standards	.179
5. Data availability	.170
6. Deadline of report	.604
7. Approval of valuation report	.895
8. Defense of valuation report	.477
9. Payment to valuation firms	.895

Source: Field survey 2003

As can be seen from table 4.5 above, the only change that was almost significant using standard significance levels (0.05) was criteria number 3 (methods of valuation), it was more fulfilled in Dar Es Salaam zone. Also rather close to be statistically significant are criteria number 5 (data availability), and number 4 (valuation standards).

4.6.5 Results for different types of business

Table 4.6 below presents results of factors affecting valuation methodology between different types of business. The businesses are divided into factories and commercial. Under the second column in the table, number 1 means that the criterion is fulfilled, while 0 means that it was not fulfilled.

Table 4.6: Differences between types of business (Chi-square input)

Factors/Criteria	*Fulfil/ Not*	*Factor'*	*Comm'*	*Total Observ'*		*(%)*
1. Selection of valuer	(1)	24	09	33		72
	(0)	08	05	13	46	28
2. Engagement of specialist	(1)	05	05	10		22
	(0)	27	09	36	46	78
3. Methods of valuation	(1)	10	06	16		35
	(0)	22	08	30	46	65
4. Valuation standards	(1)	11	07	18		39
	(0)	21	07	28	46	61
5. Data availability	(1)	06	08	14		30
	(0)	26	06	32	46	70
6. Deadline of report	(1)	11	09	20		43
	(0)	21	05	26	46	57
7. Approval of valuation report	(1)	11	07	18		39
	(0)	21	07	28	46	61
8. Defense of valuation report	(1)	10	05	15		32
	(0)	22	09	31	46	68
9. Payment to valuation firms	(1)	17	06	23		50
	(0)	15	08	23	46	50

Source: Field survey 2003

In table 4.7 below the significance values for the different criteria from the chi-square test are presented.

Table 4.7: Summary of Significance values (Differences between type of business)

Factors/Criterias	*Significance value*
1. Selection of valuer	.458
2. Engagement of specialist	.129
3. Methods of valuation	.447
4. Valuation standards	.318
5. Data availability	.009
6. Deadline of report	.060
7. Approval of valuation report	.318
8. Defense of valuation report	.766
9. Payment to valuation firms	.522

Source: Field survey 2003

As can be seen from table 4.7 above, the only change that was significant using standard significance levels (0.05) was criteria number 5 (data availability) and it was more fulfilled for commercial. Also, not far from significant, but not statistically significant are criteria number 6 (deadline of report), and number 2 (engagement of specialists).

4.7: Discussion and conclusion

4.7.1: Discussion

With regard to selection of valuation firms, the selection process was generally open to all local firms and transparent. The few exceptions were attributed to either privatizations carried out before the birth of PSRC (1993) or where time was very short to allow the entire open tendering process to take place-hence resort to selective tendering.

In respect to specialist valuation firms, two reasons were put forward to explain why they were not often engaged. First, these firms were very expensive as payments had to be made in foreign currency in addition to paying for air return tickets and keeping them in expensive hotels while in the country. Second, there were a lot of administrative formalities before they could be allowed into the country and start working. For example, visas had to be applied for them, a practicing license had to be obtained from the professional body (National council of professional surveyors) Etc. All these hurdles would cause delays in the entire sale preparation process. The few cases that involved these specialist valuers entailed a lot of planning in advance, were large enough to justify the high expenses, were targeting foreign investors and were mostly located in Dar Es Salaam.

As for methods of valuation, a few cases were valued as going concerns and on market-based approaches. On the other hand, the bulk of cases were inappropriately valued by using depreciated replacement cost approach (DRC). The DRC approach was improperly applied, particularly, the depreciation aspect and replacement cost rates were applied without any prior research or adjustments to take care of the differences. The explanation given to the popular use of the DRC is that, comparable evidence is not available. While this argument holds for large establishments and special type of properties, it does not hold for smaller properties whose comparables frequently change hands in the market. The 'copy and paste' use of replacement cost rates and depreciation rates without any research or adjustments can only be explained by negligence on the part of the valuers.

Concerning valuation standards, the majority cases were attributed to failure to adjust areas for auxiliary space with respect to main user, failure to substantiate the valuation analysis, misalignment between purpose and method of valuation and improper reporting These faults were common in five out of eight valuation firms. The clean cases were from three out of eight valuation firms that adhered to standards laid down by either RICS or IVSC.

With regard to availability of data, the problem stems from the fact that the property market is yet to be organized and is young. It is starting to pick-up from an economy in transition to a more market economy. The little data available is collected from public auctions, in-house case files, and from the registrar of titles where transfer prices are recorded. Data from the latter source is the most suspect of all because property owners have a tendency to under declare the prices, thereby reducing the impact of taxation on the accrued sale proceeds.

In regard to dead line of submitting valuation report, the majority of the cases that fulfilled the criteria comprised of small enterprises like regional trading companies and consultancy firms. The cases that did not fulfil the criteria were mainly big manufacturing firms and big agricultural based transactions. The latter category indicated that 8-10 weeks were the appropriate time to submit a report. A longer time was necessary because of physical accessibility problems and difficulties in getting comparable transaction or replacement cost rates data for the valuation exercise.

As for the approval of valuation reports, although it is mandatory[19], The PSRC bypassed this regulation in two situations. First, where time to sell an enterprise was running out. Second, where the enterprises involved were small in value terms and were earmarked for local investors, thereby arguing that national interests were not in jeopardy.

Regarding the issue of defending a valuation report, this was not a general requirement by neither the NCPS nor PSRC. Only few cases were defended on two different reasons. First, where national interests were at stake because the firms were earmarked to foreign investors and had big monetary value. Second, where the valuation estimates were vividly controversial for being either too low or too high to accept.

With respect to payment to valuers, there was generally no problem with payments because there was a special fund resourced from the World Bank to carter for all

[19] All state owned assets must be valued before their sale. Such value estimates of state owned assets must get certification from the chief government valuer.

consultancy services rendered to PSRC. The few cases that did not fulfil the criteria were mainly delays caused by either the valuation firms, for example improper entries to the invoices or by PSRC due disbursement problems between the World Bank and PSRC-particularly at the beginning of the disbursement periods. The latter case happened because the World Bank could not release any money until the previous disbursement had fully been accounted for by PSRC.

The just discussed results indicate that in few cases the criteria benchmarks were fulfilled while in majority cases the criteria benchmarks were not fulfilled in the evaluation exercise. These findings indicate that the present Valuation methodology as used by the Valuation firms engaged by PSRC, was unlikely to improve certainty in the determination of *Reserve Price* that was used as a basis for bids evaluation. It was very likely that estimated values processed by the impaired valuation methodology was less relied upon in determining the reserve prices of the state owned enterprises. And this result is likely to raise alarm from the stakeholders who had hitherto relied upon valuation estimates in their day-to-day decision making processes. The decision to sell the SOE appeared to rely more on other considerations than valuation estimates. It is no wonder that in PSRC, the decision on what price to sale the SOE appeared to rely more on other considerations like the strength of the technical proposals and investment plans presented by buyers than valuation estimates.

In all chi-square tests performed the respective significance values in majority case higher than 0.05 indicating, except in three cases, that the variables are not related. This implies that fulfillment of valuation methodology criteria did not depend on time, location and line of business.

4.7.2: Conclusion.

The main research question that guided this study is in two parts first, how were the valuation of state owned enterprises undertaken prior to evaluation of bids? Second, how good was the valuation methodology?

It follows from the above results and discussion, we can answer the research question as follows: First, various Valuation firms hired by PSRC used impaired valuation methodology, such that certainty in estimating property values suffered. Considering that certainty in estimating property values suffered, thus Valuation methodology was less able to produce reasonable value estimates that could be relied upon by decision makers at PSRC in determining the reserve price for the SOE earmarked for privatization.

Finally, it is very likely that the deficiency in the valuation methodology in Tanzania could be due to a combination of many interrelated factors such as absence of comparable transaction data, mandatory valuation approval by the chief government valuer, lack of national valuation standards, use of improper valuation methods, hasty submission of valuation reports, engagement of non-specialist valuers, and absence of a public panel during submission of valuation report to clients.

In future, it is possible to have a reliable valuation environment in Tanzania if the patrons[20] of the profession mitigate the adverse effect of the above-discussed factors on valuation methodology.

[20] The National Council of professional Surveyors(NCPS) and Tanzania Institute of Valuers and Estate Agent(TIVEA).

CHAPTER FIVE
VALUATION ERROR

5.0: Introduction

Among the most widely debated topic in appraisal journals is the accuracy in value estimates. This topic has many facets namely, valuation bias, valuation variation, valuation error Etc. This chapter examines the latter facet namely valuation error. The term v*aluation error* refers to typical difference between valuation and the actual transaction prices.

5.1: Purpose of the study

Valuation is defined as an estimate or prediction of the likely selling price, distinguishable from *worth* which is specific to an individual given its subjective estimates of factors relevant to that individual (Baum and Crosby, 1988). On the other hand, *market price* is defined as the *recorded consideration* paid for a property (Baum et al., 1996). Other definitions of terminologies used under valuation accuracy include the followings as given by Adair et al., 1996: First, *valuation bias* describes the situation where valuations systematically and consistently undervalue or overvalue in relation to actual transaction prices. Second, v*aluation error* refers to typical difference between valuation and the actual transaction prices. Third, v*aluation variation* occurs where two or more valuers arrive at substantially different values for the same property.

In this chapter valuation accuracy shall be restricted to the aspect of comparing valuation estimate against actual transaction price of the same property. That is, how close is a valuation estimate to the actual sale price (Waldy, 1997).

The purpose of study in this chapter is to investigate the extent to which the transaction prices, which the privatized state enterprises fetched, reflected the valuation estimates of the assets as expressed by various asset valuation firms prior to their selling.

Flowing from the purpose above, the main research question guiding this study is twofold first, were there cases with low or high prices in relation to value estimates? Second, did those cases with low prices in relation to value estimates differ systematically from cases with high prices in relation to value estimates? For example, were they sold earlier, did they belong to certain lines of business, and were they located in certain regions?

5.2: Accuracy in valuations: Earlier research

5.2.1: Valuation accuracy

In the recent past, a number of studies have attempted to examine sets of data to determine the accuracy of valuations when compared to sale prices. These studies include Hanger and Lord (1985), Brown (1985), Drivers Jonas/IPD (1988), Matysiak and Wang (1995), Blundell and Ward (1997).

The earlier studies on valuation accuracy in 1985 were triggered by a series of cases where state owned firms were being privatized or where companies were subjected to take-over or mergers. Valuation of the same assets by different valuation firms showed big differences in their value estimates (for example the case of Oldham Estates). At the same time assets of privatized state firms were sold off at prices that were much higher than the valuation estimates made earlier (as in the case of Royal Ordnance) (Crosby et al., 1998). Later studies were a response to findings made by the earlier studies particularly the Hager and Lord (1985) paper, which gave an impression that property valuation, was *subjective* and that it depended upon the *whim of a valuer*.

In their study, *Hager and Lord (1985)* had asked 10 valuers to value two properties, a Thames valley refurbished office and a reversionary shop investment. The authors had expected to find some variation in estimates, around 5% either side of the "correct" valuation.

The emerged estimates ranged from £630 000 to £780 000 for the office and £450 000 to £655 000 for the shop. The highest valuations were 24% higher than the lowest for the office, and 45% higher than the lowest for the shop. At the same time there was a "control valuation" executed by a property manager. The office was valued at £725 000 and the shop at £605 000. As for the office, 40% of the ten valuations were within +/- 5% of the control valuation and 90% with +/- 10%. All valuations for the office were below 20% difference from the control valuation. In the case of the shop, 50% were within +/- 5% and 80% were within +/- 10% of the control valuation. There was 1 (10%) valuation that was more than 20% from the control valuation. It was these findings that led the authors to allege that property valuation was *subjective* and that it depended upon the *whim of a valuer*.

Similarly, *Brown (1985)* tested a sample of 29 property prices where a previous valuation was available over a period 1975 – 1980. After regressing the price against valuation, using the unit value as the log of £ per square foot and obtaining a result of a statistically significant R-squared of 0.99 (99% of the valuation was explained by the price), the author concluded that although the sample size was small, yet it did add some credence to the rationale underlying the open market valuation process.

Another study was jointly carried out by Investment property Databank and Drivers Jonas (*Drivers Jonas/IPD, 1988).* The authors used their database to identify a sample of 1442 properties with sale prices between January1982 and March 1988 and with at least two professional valuations in the previous two calendar years prior to the sale. That is, all valuations had taken place between January 1982 and December 1987. Care was taken to ensure that price was not known at any of the valuation dates used in the analysis. Valuations were at least performed at least 4 months, and with an average of 9.7 months, before the sale date. The result was an R-squared of 0.93, in other words, the valuation predicted 93% of the eventual sale price. This result however, indicated a conservative bias valuation.

The authors updated and extended this study twice, first in 1990 (Drivers Jonas/IPD, 1990) where 2384 transactions were used, then in 1997 (Drivers Jonas/IPD, 1997) where 8500 transactions were used. In both studies, the authors concluded that valuers were doing a good job in estimating price. However, in these studies there was evidence of considerable mismatch between raw valuation and the eventual price.

There was yet another study by *Matysiak and Wang (1995)* who used a sample of 317 sales covering a period between 1973 and 1991 from JLM property Analysis System Database. The valuations were conducted between three to six months before sale. Their study revealed that 177 properties were undervalued against the sale price by an average of 21.1%, further that 134 properties were overvalued by an average of 11.5%. Further analysis revealed that there was undervaluation in the sharply rising market during 1987 and 1988. On the basis of the little evidence they had, the authors made tentative conclusion that valuers tend to undervalue in rising and overvalue in falling markets. Finally, it was concluded that the chance of achieving a valuation within +/- 10% of the sale price was only 30%, within +/- 15% was55%, and within 20% was only +/- 70%.

Eventually, there was a study by *Blundell and Ward (1997)* who also used a sample of 747 transactions for the period 1974 – 1990 from JLM property Analysis System Database. The time lag between valuation and sale was three to six months. The sale price was on average 7% higher than the valuation, but the standard deviation was 18%. About 20% of the valuations were more than 20% different from the sale prices (4% more than 20% higher than the sale price and 16% were more than 20% below the sale price). Only 35% of the valuations were within 10% of the sale price.

A subsequent study by *Crosby et al (1998)* observed that a major difference between the analysis of Drivers Jonas/IPD and the other two studies above is the time lag, an average of nearly 10 months compared to around 4.5 moths for Matysiak & Wang and Blundell & Ward. Further, that these two analyses finished in 1991 and 1990 respectively and have not looked at the period when the valuations in the IPD database have the closest to the subsequent sale prices. The observation concluded that, these differences would have an opposite effect, the increase in time lag leading to increased variation while the increased period of analysis leads to a reduced variation.

5.2.2: Margin of error principle

The duty of any property valuer to the client is to accurately identify the most likely sale price / market value. Any departure from the above by a valuer's estimate amounts to 'margin of error', a concept that was first accepted in courts of law in the case of Singer & Friedlander Ltd V. John D. Wood & co. (1977) Z EGLR. A formal debate on valuation accuracy started in the United Kingdom with the work of Hager & Lord (1985). Subsequently in the United Kingdom, a margin of error of 5% - 10% has been generally accepted by courts of law and practitioners as being reasonable (Mackmin, 1985) (Hutchison, et al., 1996) (Brown, et al., 1996).

While courts of law agree that valuation estimate of any interest in land is a matter of opinion and that valuation is not a science but an art (Zubaida V Hargreves [1995] 1 EGLR 127, Craneheath Securities Ltd V York Montague Ltd [1996] 1 EGLR 126); yet the same courts of law feel that 'opinion' about any particular property value is not without limits, and that any valuation which falls beyond those limits or brackets must have been arrived at in a negligent way (Baxter V. F W Gapp & co. Ltd [1939] 2KB 271). It is this bracket, which has come to be known as 'margin of error'.

Although the 'margin of error' principle has been elevated to a status of a legal principle, implying that valuers have little choice than accommodating it in their practical work, recent studies are of a different view. Crosby, et al., (1998) are of the view that the application of the margin of error principle has no rational basis because their analysis suggested that the appropriate margin could not be identified accurately, therefore it should not be used as a test for negligence. The scholars hold that professional negligence by valuers should be treated in the same way as other professions, that is, by focussing on the way in which the professional task has been done, rather than on the result which has been achieved.

5.2.3: Valuation accuracy in privatization

A recent research carried out in Eastern Europe by the United Nations shows prevalence of problems associated with valuation accuracy in valuation exercises that were undertaken prior to privatization of state owned enterprises.

In the former *Germany democratic Republic* during valuation exercise, many value judgements were required, more than it is when valuing business in Western Europe. Some cases of excess conservatism and over-optimism naturally occurred, considering the shortage of time to complete the work. Recently, there has been criticism that some business enterprises have been sold at very low prices, based upon the valuation of individual assets and liabilities. In response to the above criticism, the new valuation guidelines provide that the fair market value of the enterprise as a going concern be considered ***(UN, 1993)***.

Similarly, in *Czechoslovakia* all business enterprises being sold to local citizens were valued at historical cost as it appeared in their book value less accumulated depreciation. This valuation principle covered all assets namely, buildings, machinery and equipment. The valuation of buildings based on book value were in most cases overstated because the depreciation allowances deducted were very low between 1 and 1.5% per year. However, considering that most of these buildings were rebuilt prior to their privatisation and that such costs were not added to their historical costs, the net book values are low and did not correspond to fair market value (UN;1993).

5.3: Results

In analysing the collected data, descriptive statistical method was used. Under this method, frequency tables, percentages and narrative notes to explain data summarized in the tables have been used.

Tables 5.1 to 5.6 presents data collected by this study seeking to investigate on the relationship between valuation error on the one hand and on the other hand time, location and line of business of the SOE sold. Also, Chi-square test was conducted to establish the relationship between valuation error on the one hand and time of sale, line of business and location of the privatized enterprises on the other hand.

5.3.1: Aggregate result

Table 5.0 below presents aggregate results of data collected by this part of the study.

Table 5.0: Aggregate result (Value versus Price)

Valuation error %	Observation	(%)	Remarks
(+) 11% & above	29	63	Value > price
(+ or –) 0 to 10%	*15*	*33*	*Acceptable error*
(-) 11% & below	02	04	Value <price
Total	*46*	*100*	

Source: Field survey 2003.

The results from table 5.0 above indicate that out of 46 units of inquiry in the case study the majority cases had their valuation estimates exceeding the sale prices and in extremely few cases did sale price exceed the value estimate. Another general result from the table is that valuations falling within acceptable margin of error (+/- 0 to 10%) were fewer than those cases that fell outside [21].

In this chapter, price has been used as a *benchmark* for measurement instead of valuation estimate. The reason being that valuation is always a proxy or shadow of price and acts as a foreteller of the latter. Thus the issue is, why use a shadow as a benchmark if the real object exists? The valuation error is therefore computed as

[21] In each of the tables, note that the +/- signs are ignored and the results are in bold figures.

follows: Valuation error (E) is *equal to* value (V) *less* price (P) *divided* by price (P) *times* 100[22].

5.3.2: Results of changes over time

In table 5.1 below presents a summary of data collected by this study seeking to investigate on the relationship between valuation error and time period the SOE were sold. The first column presents a range of valuation error as percentage difference between valuation estimate and actual price. Second to fifth columns present the distribution of valuation error according to time period (years). The sixth column presents the sum of valuation error falling under one range across all two-time periods. The seventh column expresses the summations in the sixth column as a percentage of the total observations in the case study. And the last row at the bottom of the table presents summation for observations appearing in all columns just explained and their respective percentages.

Table 5.1: Changes in Valuation error over time

Valuation error (%)	1992-6		1997-00		Total	%
	SOE	%	SOE	%	SOE	
+Over 51	5	22	3	13	8	17
+31 to 50	2	9	8	35	10	22
+21 to 30	1	4	2	9	3	7
+11 to 20	5	22	3	13	8	17
+0 to 10	**8**	**35**	**6**	**26**	**14**	**31**
- 0 to 10	***1***	***4***	***0***	***0***	***1***	***2***
- 11 to 20	*1*	*4*	*1*	*4*	2	*4*
Total	**23**	**100**	**23**	**100**	**46**	**100**

Source: Field survey, 2003.

Specific results from table 5.1 show that during the first period of privatization (1992-96), it is the acceptable margin of error (+/- 0 to 10%), which featured prominently, followed by brackets 11% to 20% and over 51%, then followed bracket 31% to 50%, and lastly the remaining brackets. On the other hand, during the second period of privatization (1997-2000), it is the unacceptable margin of error in bracket 31% to 50% that featured prominently, followed by the acceptable margin of error in bracket +/- 0 to 10%, followed by brackets 11% to 20% and over 51%, followed by bracket 21% to 30%, and lastly, bracket –11% to –20%.

For the sake of chi-square assumptions[23] table 5.1 above is condensed to table 5.2 below. The error is split into acceptable and not acceptable.

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[22] Valuation Error = $\frac{\text{Valuation estimate} - \text{price}}{\text{Price}} \times 100\%$.

[23] No expected cell frequency is less than five.

Table5.2: Changes in Valuation error over time *(chi-square input)*

Valuation error	*Time of sale*	
	Early	*Late*
Acceptable	09	06
Not acceptable	14	17

Source: Field survey, 2003.

According to results from chi-square test a significance value of 0.743 was found. This implies that there were not a relation between valuation error and time of sale.

5.3.3: Results of differences between regions

Table 5.3 presents a summary of data collected by this study seeking to investigate on the relationship between valuation error and Location. The first column presents a range of valuation error as percentage difference between valuation and actual price. The second to fifth columns present the distribution of valuation error according to location. The sixth column presents the sum of valuation error falling under one range across all locations. The seventh column expresses the summations in the sixth column as a percentage of the total observations in the case study. And the last row at the bottom of the table presents summation for observations appearing in all columns just explained and their respective percentages.

Table 5.3: Differences in *valuation error between locations*[24]

Valuation error (%)	Dar		Others		Total	%
		%		%		
+Over 51	6	25	2	09	8	17
+31 to 50	3	13	7	32	10	22
+21 to 30	3	13	0	00	3	7
+11 to 20	3	13	5	23	8	17
+0 to 10	**8**	**33**	**6**	**27**	**14**	**31**
- 0 to 10	***1***	***04***	***0***	***0***	***1***	***2***
- 11 to 20	*0*	*00*	2	*09*	2	*4*
Total	24	100	22	100	46	*100*

Source: Field survey, 2003.

Specific results from table 5.3 shows that in Dar Es Salaam zone the acceptable margin of error (+/- 0 t0 10%) featured prominently, followed by bracket over 51%, followed by brackets 11% to 20%, 21 to 30% and 31to 50%. In other regions brackets

[24] Location is divided into two zones: *Dar* (Dar Es salaam, Morogoro and coast); and Others covering the rest of the country.

31 to 50% came first, followed by bracket 0 to 10%, followed by bracket 11 to 20%, followed by bracket –11% to –20%, and bracket 21 to 30% came last.

For the sake of chi-square test table 5.3 above is condensed to table 5.4 below. The error is split into acceptable and not acceptable. Under the first column in the table, number 1 denotes that the valuation error is acceptable, while number 0 denotes not acceptable.

Table5.4: Differences in *valuation error between locations (chi-square input)*

Valuation error		*Locations*	
		Dar	*Others*
Acceptable	(1)	09	06
Not acceptable	(0)	15	16

Source: Field survey, 2003.

According to results from chi-square test a significance value of 0.930 was found. This implies that there were not a relation between valuation error and location.

5.3.4: Differences between type of business

Table 5.5 presents a summary of data collected by this study seeking to investigate on the relationship between valuation error and type of Business. The first column presents a range of valuation error as percentage difference between valuation and actual price. The second to fifth columns presents the distribution of valuation error according to type of Business. The sixth column presents the sum of valuation error falling under one range across all lines of business. The seventh column expresses the summations in the sixth column as a percentage of the total observations in the case study. And the last row at the bottom of the table presents summation for observations appearing in all columns just explained and their respective percentages.

Table 5.5: Differences in valuation error between types of business

Valuation error (%)	Factory[25]		Commercial[26]		Total	%
	SOE	%	SOE	%	SOE	
+Over 51	6	20	2	12	8	17
+31 to 50	7	23	3	19	10	22
+21 to 30	1	3	2	13	3	7
+11 to 20	5	17	3	19	8	17
+0 to 10	**9**	**30**	**5**	**31**	**14**	**31**
- 0 to 10	***1***	***3***	***0***	***0***	***1***	***2***
- 11 to 20	*1*	*3*	*1*	*6*	2	*4*
Total	30	100	16	100	46	100

Source: Field survey, 2003.

Specific results from table 5.5 above reveal that under the factory line of business, the acceptable margin of error (+/- 0 to 10%) featured prominently, followed by bracket 31% to 50%, then followed brackets 11% to 20% and over 51%, followed by bracket 21% to 30%, and finally, bracket –11% to –20%. On the other hand, under the commercial line of business, the acceptable margin of error featured prominently, followed by bracket 11% to 20%, next followed bracket 21% to 30%, then followed bracket over 51%, and lastly, bracket –11% to –20%.

For the sake of chi-square test table 5.5 above is condensed to table 5.6 below. The valuation error is split into acceptable and not acceptable. Under the first column in the table, number 1 denotes that the valuation error is acceptable, while number 0 denotes not acceptable.

Table5.6: Differences in between types of business (Chi-square input)

Valuation error	Types of business	
	Factory	*Commercial*
Acceptable (1)	10	05
Not acceptable (0)	20	11

Source: Field survey, 2003.

According to results from chi-square test a significance value of 0.930 was found.
This implies that there were not a relation between valuation error and type of business.

[25] Factory includes: Manufacturing and Agri-processing.
[26] Commercial includes: banks, trading companies, and consultancy firms.

5.4: Discussion and conclusion.

5.4.1: Discussion.

The results from tables 5.0 to 5.6 above open discussion into two levels general and specific. Generally, the results from the tables have shown that the majority of transactions in the case study had valuations above their respective sale prices and only in very few cases did sale prices exceed valuation estimates. This confirms the fears earlier aired by consultants at PSRC that value estimates were generally overstated. In seeking explanation to this phenomenon, the study found that the overall economy in Tanzania had been experiencing a depression over the same period from 1988 to 1999 and the property market was no exception to this. Most of the valuation for privatizations and sales took place within this period. It is very likely therefore that valuers did overvalue properties during falling markets as earlier found by Matysiak and Wang (1995).

Another general result from the tables is that valuations falling within acceptable margin of error (+/- 0 to 10%) were fifteen out of 46 cases in the case study. That is, only a third of all valuations carried out had an acceptable margin of error, this defies earlier findings that valuations were good proxies of sale prices (Brown, 1985; Drivers Jonas / IPD, 1988) etc.

Concerning specific results, in reference to table 5.1 the acceptable margin of error (+/- 0 to 10%) featured somewhat more in early period of privatization (1992–96), even if it was not statistically significant. This phenomenon could be explained in two ways. First, most of the valuation firms were very keen in their first valuation assignments as awarded by PSRC so that they could be awarded more future jobs in the pipeline. That is, valuers followed the valuation ethics to the letter. Second, that the best SOE that were operational were sold first during this early period. Therefore, valuers had very few subjective judgements concerning the condition of the enterprises being valued. This in turn improved the level accuracy in estimating key variables (depreciation allowance, replacement cost rate and discount rate) in the valuation procedure.

According to table 5.3 results showed that the acceptable margin of error of +/- 0 to10% prevailed somewhat more in Dar Es salaam region, but once again not statistically significant. A possible explanation to this could be that the location had certain positive features. For example, it is the country's leading economic and business center. Another factor is that it has an international airport and is also a sea-port hence, easier import and export business. Finally, the location has the best economic and physical infrastructure in the country. Given these factors, the property market is relatively buoyant when compared to other locations, this in turn leads to better accessibility to comparable information and therefore better accuracy in valuation.

In reference to table 5.5 results showed that there were no differences at all between the two lines of business namely, manufacturing, and commercial. It should be noted that at the time of valuation, one third of SOEs in this bracket were still operational in their business and were subsequently sold as "going concerns". When assets of a SOE are operational, both the valuers and buyers minimize a lot of subjective judgments concerning their 'working conditions'. Hence, it was possible to arrive at more realistic figures, which narrow-down the gap between price and value estimates. On the other hand, most of the remaining two thirds of SOEs which had a margin of error above +/- 10% were either operating far below their installed capacities or had closed down business or were in run down condition. Where assets of a SOE are not operational, both the valuers and buyers tend to raise the level of subjective judgments concerning the working condition of the enterprises. Consequently, arrival at less realistic figures, which could sometime blow up the gap between price and value estimates.

5.4.2: Conclusion.

The main research question that guided this study is twofold first, were there cases with low or high prices in relation to value estimates? Second, did those cases with low prices in relation to value estimates differ systematically from cases with high prices in relation to value estimates? For example, were they sold earlier, did they belong to certain lines of business, and were they located in certain regions?

Generally, valuation estimates in Tanzania were found to be higher than sale prices. The few cases whose valuations were below prices were negligible to warrant any meaningful discussion or comparison between under valuations / over valuation cases. Similarly, the proportion of the acceptable margin of error in the case study indicates that in Tanzania valuation estimates are not good proxies of sale prices. Lastly, the valuation error did not depend on time of sale, location and type of business in a significant way.

CHAPTER SIX
BUYERS OF STATE OWNED ENTERPRISES

6.0: Introduction

This chapter addresses the question of who were the buyers of the state owned enterprises in the light of a stated privatisation objective of ensuring wider participation by the people in the ownership and management of business operations. This objective was deemed inevitable because throughout history either foreigners or Tanzanians of Indian and Arab origins have dominated private business operations. At the planning stage of the privatisation policy, the government of Tanzania deliberately aimed at redressing this past anomaly and use privatisation exercise as tool to redistribute wealth among its people

6.1: Purpose of the study.

6.1.1: Background

At the time of independence in 1961, the then Tanganyika government had majority shareholding in only three (3) business enterprises. This number grew to forty three (43) state owned enterprises (SOE) in 1967 when there was a formal change of policy from free market system into a socialist economic system. Accordingly, the major means of production, distribution and exchange became state owned. The development goal of this policy change was to achieve rapid and self-reliant economic growth through state control of the commanding heights of the economy. The widespread nationalizations of private firms and investment in new enterprises accelerated the growth of public owned enterprises that grew to four hundred twenty five (425) by June 1990. By 1993 public enterprises accounted for about 24% of non-agricultural employment but accounted for only 13% of the gross domestic product (GDP) (PSRC, 1993). Historically, either foreigners or Tanzanians of Indian and Arabian origins have dominated the economic and business operations.

Thus during the planning stage of the privatisation policy, the government deliberately aimed at redressing this past anomaly and use privatisation exercise as tool to redistribute wealth among its people. Subsequently, the fourth privatization objective is to *'encourage wider participation by the people in the ownership and management of business.'*[27] In this regard, the focus of this study revolves around this objective.

[27] PSRC(1993), Parastatal privatization and reform master plan.

6.1.2: Purpose of the study and research question

There has been discontent from the general public that the government is virtually selling all state owned firms to private foreign owners without regard to one of its stated objectives of widening ownership participation by the people. The discontent has been aired through the press, academic forums, opposition parties and members of parliament.[28] Further, the former minister for trade and industry (Iddi Simba) has been vocal and instrumental on the indigenization issue to the extent that the ruling party (CCM) had to include it in her policies and election manifesto during the general elections held in the year 2000.

In view of the general public discontent, the study sets out to investigate the extent to which the privatization process has either or not achieved the objective of wider ownership participation by the people. Secondary to this is to examine if there has been any clear ownership pattern when comparison is made between different lines of business, regional locations and time of sale of the SOEs.

Following from the above stated purpose, the main research question that guided this study is two fold, first, has the government encouraged wider participation by the people in the ownership and management of business through the ongoing privatization process? Secondly, has there been any ownership pattern when comparison is made between different lines of business, regional locations and time of sale of the SOEs?.

6.2: Earlier Research

The urgent need to privatize large number of state owned enterprises (SOEs) in equitable ways led to the development of three basic broad-based ownership strategies namely, voucher based programs; collective investment programs; and public share offerings (Bell, 1999). These strategies were preferred due to three main reasons namely, they were politically popular; they had better redistributive results, and promoted capital market development. Politically, the strategies aim at spreading share ownership to the population at large or to specific subgroups (such as the poor or an ethnic minority). On the redistributive front, the strategies allow governments to address concerns about the distribution of wealth. Finally, the strategies can play an important role in developing and deepening capital markets and associated institutions (Ibid.) (Tanyi, 1997). The three broad ownership strategies are examined in detail hereunder.

[28] The East African, July 28th – August 3rd 1997(P.5); The Guardian, April .22nd 2003 (p.5).

6.2.1: Voucher based programs

Voucher based programs entails distribution of certificates / coupons, to participants, who later exchange vouchers for shares in financial intermediaries (voucher funds). Later on, the intermediaries bid their accumulated vouchers for shares of SOEs. In most cases, vouchers can be freely traded for cash. Typical example of these financial intermediaries includes investment trusts for start-up purpose, transforming later into unit trusts. Vouchers work best where their distribution and trading centres are easily accessible and where there is a competent administrative system for their distribution and registration. A stock exchange is not a prerequisite for a voucher-based scheme. Vouchers have been widely used in transition economies of Eastern Europe and the former USSR (Nellis, 1996; Ramachandran, 1997; Pistor et al, 1997; Gray, 1996; Hanoesek et al, 1998; Ellerman, 1998; Shafik, 1995).

6.2.2: Collective Investment programs

Collective investment programs include investment trusts and privatization trust funds endowed with government-owned equity, pension schemes funded from the earnings of SOE shares, and non-voucher-based unit trusts. These collective programs differ from voucher - based programs in two ways. First, they do not necessarily entail distribution of paper vouchers and, as a result, are simpler to administer and usually require lesser resources to take-off. Second, there is generally restricted entry and exit to participants of these schemes. In privatization trust funds, citizens do not individually own shares in that fund or any of the underlying assets. Instead, the assets are collectively owned and held for the benefit of the present and future citizens. That is, there is no immediate direct financial gain for participants. Policy maker usually go for these collective programs when capital markets are weak and constrained, or when there is little understanding of share ownership, or where there are cultural barriers to individual accumulation of wealth, or where there is a low level of literacy, and where there are logistical problems such as a highly dispersed population that is difficult to reach (Bell, 1999).

6.2.3: Public Share Offering

A public share offering has been mostly used when large amount of capital was needed and when widespread ownership was major objectives of a privatization exercise. Although the technique creates the most public awareness, it is the most technically difficult approach, requiring a lot of care in choosing candidates among hundreds of potential SOEs and carefully planning the details for the floatation. Through public offerings the government invites applications for the shares at a set price. Where the issue is oversubscribed, the shares are allocated according to a rationing scheme that is determined by the government and the underwriters. To be successful, a public offer requires a well-developed financial market and an efficient system of corporate valuation (Tanyi, 1997; UN, 1993; Welch, 1998; Gray, 1996).

One of the most frequent criticisms of broad-based ownership schemes (particularly the voucher programs) is that enterprise risk being 'orphaned'. That is, ownership can become so widely diffused that there will be no dominant owner to compel good management. The best way out of that problem has been to reserve majority shares for a core investor. The remainder can be broadly distributed. Unless this is done, the political and social gains could be scored at the expense of very high costs in terms of lost economic benefits (Bell, 1999).

The study borrows experience from three countries described hereunder. Choice of these countries is based on three main reasons. First, Chile and Malaysia are both developing countries like Tanzania, their experience could assist in improving things in the latter. Second, Kyrgyz republic had a planned economy like Tanzania, its experience could assist in improving things in the latter. Third, the three cases represent different parts of the World, That is, Latin America, the Far East and Eastern Europe, this combination throws light to a global situation.

6.2.4: Broad ownership schemes in Chile, Malaysia, and Kyrgyz republic

Chile privatised about 550 state enterprises in two phases. First, during 1973-79 the government returned 300 nationalized firms to their original owners. Second, during 1984-89 the government undertook privatisation of 207 firms in various industries.

In the first phase, since private investment capital was meagre, the government provided credit to a small number of new and rapidly growing financial-industrial groups. These groups were formed through the purchase of state owned financial institutions and expanded through active participation in privatisation, with the purchase of state firms financed with state credits or with credits granted by the financial institutions that formed the core of the groups. The worsening economic recession that swept across Latin America during the late 1981 forced the Chilean authorities to restrain cheap credit and diversify ownership during later privatisations.

Unlike the first program, during the second phase, credit was extended only to employees and small investors, and purchase discounts and incentives were widely used. Rather than provide cheap credit to financial institutions, the state capitalised privatised pension funds with its debts, later swapping the debts for shares in privatising companies and prequalified buyers. Debt equity swaps helped to attract foreign direct investments. Strong public support for the redesigned program allowed it to proceed for several years, creating hundreds of thousands of new shareholders and strengthening Chiles securities market (Fine, 1998).

In here, the government created a fund to administer the availability or future transactions of the people's shares, a private Pension fund was put in place. In the end, the objective of broadening ownership by the people was successful.

Malaysia also introduced policies to strengthen private sector and reduce public sector dominance in her economy. The policies aimed at the same time to reverse the socio-economic imbalance whereby the native *Bumiputra* community although it represented the majority of the population, they held only 4% of corporate assets in1970. The non-native Malaysians, mainly Chinese, Indians and other foreigners, held the rest (96%).

In order to promote broad ownership of enterprise shares among the native population as state enterprises were being privatised, the government required that 30% of privatisation shares be directed to the Bamaputra, who would receive special incentives to encourage their participation. Additionally, 5% shares were reserved for company staff. By the end of 1989, the Bumaputra people held 18% of Malaysia's corporate wealth. In Malaysia therefore, privatisation was used as vehicle to redistribute wealth among its population (Fine, 1998). In here, the Malaysian government created a fund to administer the availability or future transactions of the people's shares; a national unit trust was put in place. In the end, the objective of broadening ownership by the people was successful.

The Kyrgyz Republic formerly a member of the USSR was among the pioneers to embrace the market oriented reforms. The country got her independence from the Soviet Union in 1991. By 1996 about 50% of 1,200 both medium-size and large-scale state firms had been privatised. Privatization officials both regional and national levels were very transparent as *coupon auctions* were announced and calendars made known to the general public as early as six moths in advance. This was typical example of mass privatisation modelled on Russia's voucher auction program, which featured simple, transparent, and accessible bidding and gave citizens choices for investing their vouchers. Similarly, the Kyrgyz citizens could invest their coupons directly at local auctions, where medium-sized enterprises of regional interests were offered, or at national level auctions where the best-known and largest firms were sold. Workers to the state firms were given free coupons to the tune of 5% only. In here, the Kyrgyz government created a fund to administer the availability or future transactions of the people's coupons; establishment of coupon fund was facilitated. In the end, the objective of broadening ownership by the people was successful (fine, 1998).

6.3: Broad ownership scheme in Tanzania.

Broadening ownership is sometimes called indigenization. The latter term defined as *'a process by which a government limits participation in a particular industry to either citizens or a section (e.g. majority) of the country's population, thus forcing alien or a certain section of its citizens to sell property, diversify to other sectors or to participate on joint venture basis'* (Moshi, 1994: 47). Going by the definition, the action taken by the government of Tanzania in 1967 to nationalize private companies, followed by the creation of new public enterprises was one form of indigenization. In other words, privatization is tantamount to a counter process, which reverses the previous gains. A counter process like this makes resurgence of indigenization debate inevitable (Moshi, 1994).

Moshi argues that one reason, which contributes, to increased public resistance to privatization is; concluded transactions have shown significant tendencies towards de-indigenization of the SOEs. Most of the winning bidders have either been foreigners or non-indigenous. This new marginalisation is bound to increase resistance. He recommends conscious and well-planned policies and programs for raising the entrepreneurial capacity of the indigenous people as a pre-requisite for indigenous development. Both foreigners and non-indigenous should be encouraged, through appropriate incentives, to enter into collaborative arrangements with the indigenous.

Upon realising that '*broadening ownership to the people'* is a serious issue, PSRC commissioned two consultants[29] to recommend on ways by which to broaden ownership. The consultants recommended three options namely, employee share ownership schemes (ESOPs), management employee buyouts (MEBOs) and unit trusts. Up to this time, only ESOP and MEBO schemes have been deployed by PSRC. In addition, the PSRC initiated a campaign to win public support by increasing awareness of the general public about her activities. This was done through a number of ways namely, free distribution of a bi-monthly news letter, press releases, organizing and participation in seminars on privatization etc. the focus of public awareness support was directed to members of parliament, student communities, journalists, politicians, the general public, key decision makers in the civil service, non-government organisations, international organizations, donors and diplomatic missions (PSRC, 2002: 4)

The government on her part has endeavored to counter the critics of her failure to broaden ownership through seminars directed to members of parliament, trade unions, ruling party (CCM) leadership, public rallies, press statements etc. The government is quick to point out that the objective of broadening people's participation has been successful by quoting statistics as those appearing in table 6.2 below. The figures indicate that whereas only 14 SOE were sold to foreign investors, 135 were sold to local investors over the period 1992 to June 30th 2002.[30]

The widely accepted media for wider participation by the people is public share offering through the stock market. In Tanzania this is yet to be fully developed; the Dar-es-Salaam Stock Exchange (DSE) only took-off in January 1998. Table 6.1 presents companies already privatised and listed on the DSE.

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[29] The commonwealth secreteriat and Economic resources ltd (PSRC, 1993:8)

[30] Speech by president Benjamin Mkapa to trade union leaders attending a seminar on privatization, Morogoro, June 29th 2002; Speech by minister responsible for privatization Dr. Kigoda, Dar 2002; Press release by PSRC's head of information unit (Mr. Mapunda, April 2002) etc.

Table 6.1: Privatized companies listed on the DSE.

Parastatal	***Divestiture Strategy***	***Target Date***	***Remark***
Tanzania Breweries Ltd.	Share-Sale (Flotation)	April 1998	Listed
Tanzania Cigarette Company Ltd.	Share-Sale (Flotation)	June 1998	Listed
Tanzania Oxygen Ltd.	Share-Sale (Flotation)	October 1998	Listed
Tanga Cement Company Ltd.	Share-Sale (Flotation)	Sept. 2002	Listed

Source: PSRC, 2002.

People's participation in the listed companies has been as follows:
Tanzania Brewery's share were quoted at Tshs.600.00@ share (1998), while the Tanga Cement shares were quoted at Tshs.3,000.00 @ share (2002) etc. Further to the Tanga cement shares, applications received were 14,228 - representing 80,628,770 shares. Since only 20,700,000 ordinary shares were initially floated to the general public, there resulted an excess demand of almost 60 million shares(290%).

To date about 41,500 Tanzanians of all races have bought shares from privatised SOEs through the Dar Es Salaam stock exchange (DSE) as follows: Tanzania breweries-23, 000 people, Tanzania oxygen- 11,000 people, and Tanzania cigarette company- 7,500 people. Other government shares retained shall be sold later at DSE through the Privatization trust at a date yet to be known.

The other scheme that could have assisted in widening ownership participation by the people (indigenous) was the management and employees buy out (MEBO). It appears that from the start in 1993 when PSRC was working out her master plan, it restricted the number of SOEs falling under this scheme to only twelve. As of June 2002, about 10 SOEs sailed through this scheme out of the planned twelve as follows: Tanzania publishing house, TISCO, NEDCO, KIUTA, National steel corporation, Moshi hand tools, Epress Tanzania, HANDICO, NTC, and Arusha metal industries. Finally, under the ESOP scheme only one SOE has sailed through namely, Tanzania Portland Cement Company limited.

Table 6.2 indicates that between 1992 and June 30th 2002 a total of 339 enterprises (excluding non-core assets) were successfully divested. Out of that total, 135 (40%) went to Tanzanian investors by 100% equity, while 14 (4%) attracted foreign investors by 100% equity, and 190 (56%) enterprises are being run under joint ventures[31] between the government and local or foreign investors.

[31] That is, the government sells only part of the enterprises' shares to a private investor (say 60%) and retains the residue (say 40%). In many cases the government retained minority shares.

Table 6.2: Number of divested SOE *versus* buyers (overall).

Buyer's classification	*Number of SOEs*	*(%)*
Local	135[32]	40
Foreign	14	4
Joint venture	190	56
Total	339	100

Source: PSRC, 2002.[33]

Concerning the question of wider ownership participation by the people a number of results have emerged. First, according to table 6.1, out of 190 SOEs that were joint ventures, only 4 (2%) have been listed at the Dar es salaam Stock Exchange, the majority of 186 (98%) SOEs were yet to be listed. Second, results from table 6.2 show that where as Tanzanian investors accounted for 40% of all divested enterprises by 100% equity, foreign investors account for 4% of all divested enterprises by 100% equity. Joint ventures between the government and investors that were either local or foreign accounted for 56%.

Table 6.3 presents sale value figures of 339 state owned enterprises sold to private investors between 1992 and June 30th 2002 as per their classification (local or foreign). In case of joint ventures, the shares held by either local or foreign buyers has been converted into monetary equivalence and included under a respective category (either local or foreign) in table 6.3 here below.

Table 6.3: Sales value of divested SOE *versus* buyers (overall).

Buyers classification	*Sales value[34] USD $ (000,000).*	%
Local	89.0	20
Foreign	365.0	80
Total	454.0	100

Source: PSRC, 2003.[35]

Therefore going by results in table 6.2, one is tempted to say that the local investors have got a lion's share from the privatization exercise when compared to foreign investors. But

[32] The figure includes 26 SOE in receivership or liquidation.
[33] PSRC annual review, 2001/2002 and action plan 2002/2003.
[34] The sales value equivalence for Joint ventures is split between local & foreign buyers in proportion to their shares.
[35] PSRC answer to parliamentary question no. 2479, 2002.

results from table 6.3 show that in terms of sales value, local investors accounted for only 20% of the total sale value (of the 339 SOEs) compared to foreign investors who account for 80% of the total sale value. Local investors purchased smaller enterprises that were mostly closed down and disposed as asset sales. On the other hand, foreign investors purchased bigger enterprises that were mostly operational and sold as going concerns.

6.4: Results

The collected data is analyzed by descriptive statistical method. Under the method, frequency tables, percentages and narrative notes to explain data summarized in the tables are used. Tables 6.4 to 6.7 presents a summary of data collected by this study.

Table 6.4 presents the absolute number of 80 SOEs in the case study as divested to private investors for period 1992 to June 30th 2001 according to their classification (local or foreign).

In case of *joint ventures*, an enterprise is classified as foreign owned where a foreign buyer holds majority shares in a joint venture purchase and vice versa for a local buyer, as it appears in table 6.4 below.

Table 6.4: Absolute number of divested SOEs *versus* Buyers

Buyers' Classification[36]	Number of divested SOE	%
Local	53	66
Foreign	27	34
Total	80	100

Source: Documentary survey, 2003.

Results from table 6.4 reveal that out of 80 divested SOEs local investors accounted more compared to foreign investors. These results give an impression similar to that presented in table 6.2 above that local investors have bought more SOEs compared to foreign investors in terms of absolute numbers.

Table 6.5 presents the sale value of 80 SOEs in the case study as divested to private investors for period 1992 to June 30th 2001 according to their classification (local or foreign).

In case of *joint ventures,* the shares held by either local or foreign buyers in a joint venture purchase has been converted into monetary equivalence and included under respective category (either local or foreign) as it appears in table 6.5 below.

[36] An enterprise is classified as foreign owned where a foreign buyer holds majority shares in a joint venture.

Table 6.5: Sales value of divested SOEs *versus* buyers

Buyer's classification	*Sales value*[37] *USD $ (000,000).*	*%*
Local	28.0	8
Foreign	329.0	92
Total	357.0	100

Source: Documentary survey, 2003.

Result from table 6.5 above show that local investors contribution to the total sale value in the case study is very small compared to foreign investors who accounted for a lion's share of the total sale value in the case study. The results in table 6.5 confirm and are in agreement with the results in table 6.3 above. Further, when data in appendix 6 is closely examined, it reveal, that most of the SOEs that were bought by indigenous investors were small ventures with prices ranging from the lowest USD$ 40,000.00 (Express Tanzania Ltd) to the highest USD $1.8 million (Morogoro canvas), compared to foreign investors whose prices ranged from the lowest USD $ 180,000.00 (Williamson diamonds) to the highest USD $ 120 million (TTCL).

Table 6.6 presents the distribution of absolute numbers of SOEs to buyers' classification according to Changes in absolute numbers over time.

For the sake of chi-square test table 6.6 below was also used whereby buyers were split into local and foreign.

Table 6.6: Changes in absolute numbers over time

Buyers' classification	Early period		Later period		**Total**	
	SOE	%	SOE	%	SOE	%
Local	20	69	33	65	53	66
Foreign	9	31	18	35	27	34
Total	29	100	51	100	80	100

Source: Documentary survey, 2003.

Results in table 6.6 above reveal that during early years of privatization (1992-96), local investors accounted a little more compared to foreign investors. The trend was the same even in the later period (1997-2000), and it is rather obvious that there were no significant change over time. This is confirmed by the results from chi-square test where a significance value of 0.699 was found.

[37]The sales value equivalence for Joint ventures is split between local & foreign buyers in proportion to their shares.

Table 6.7 below presents the distribution of sales value (in US$ million) of SOEs to buyers' classification according to Changes in sales value over time.

Table 6.7: Changes in sales value over time

Buyers' classification	Early period 1992 - 96		Later period 1997 - 2000		**Total**	
	US$ (mil.)	%	US$ (mil.)	%	US$ (mil.)	%
Local	17.0	15	11.0	4	28	8
Foreign	95.0	85	234.0	96	329	92
Total	112.0	100	245.0	100	357	100

Source: Documentary survey, 2003.

Results in table 6.7 above reveal that during early years of privatization (1992-96), local investors' purchases were very small compared to foreign investors' purchases. In the later period (1997-2000) local investors' purchases were even smaller compared to foreign investors' purchases.

Table 6.8 below presents the distribution of absolute numbers of SOEs to buyers' classification according to location.

*Table 6.8:*Differences in absolute numbers between locations

Buyers	Dar		Others	
		%		%
Local	22	55	31	78
Foreign	18	45	9	22
Total	40	100	40	100

Source: Documentary survey, 2003.

Results from table 6.8 above show that in Dar Es salaam zone, local investors dominated over foreign investors, similarly in other regions local investors dominated over foreign investors. However, the presence of foreign investors in Dar Es salaam is double their presence in other regions. According to results from chi-square test a significance value of 0.033 was found. This implies that there were a relationship between buyers and location.

Table 6.9 below presents the distribution of sales value (in US$ million) of SOEs to buyers' classification according to location.

Table 6.9: Differences in sales value (US$ million) between locations

Buyers	Dar		Others	
		%		%
Local	20	6	8	15
Foreign	291	94	38	85
Total	312	100	46	100

Source: Documentary survey, 2003.

Results from table 6.9 above show that in Dar Es Salaam zone, local investors' purchases were dismal against foreign investors' whose purchases took a Lion's share. The above trend prevailed even in other regions, but not so dramatically.

Table 6.10 below presents the distribution of absolute numbers of SOEs to buyers' classification according to types of business.

Table 6.10: Differences in absolute numbers between types of business

Buyers' classification	Factory[38]		Commercial[39]		Total	
	SOE	%	SOE	%	SOE	%
Local	34	60	19	83	53	66
Foreign	23	40	4	17	27	34
Total	57	100	23	100	80	100

Source: Documentary survey, 2003.

The results from table 6.10 above indicate that under factory line of business, local investors accounted more compared to foreign investors Similarly, under commercial line business local investors accounted more against foreign investors. However in terms of preferences, local investors preferred purchasing commercials compared to factories. On the other hand, foreign investors preferred purchasing more factories compared to commercials. According to results from chi-square test a significance value of 0.049 was found. This implies that there were some relationship between buyers and type of business.

Table 6.11 below presents the distribution of sale value to buyers' classification according to types of business.

[38] Factory business comprises of Manufacturing and Agri-processing.
[39] Commercial business includes trading, consultancy, banks, construction, transportation and telecommunication.

Table 6.11: Differences in sales value between types of business

Buyers' classific'	Factory business		Commercial business		**Total**	
	US$ (mil.)	%	US$ (mil.)	%	US$ (mil.)	%
Local	23.0	11	5.0	4	28.0	8
Foreign	192.0	89	137.0	96	329.0	92
Total	215.0	100	142.0	100	357.0	100

Source: Documentary survey, 2003.

The results from table 6.11above shows that under factory type of business, local investors' purchases were very small against purchases by foreign investors. Similarly, under commercial line of business, local investors' purchases were dismal compared to purchases by foreign investors.

In terms of value there is no clear difference between shares in factory and commercial business. The foreign buyers dominate both very clearly.

A structured question was asked to *five* employees from each of the 25 privatized enterprises involved in the exercise. The choice of these enterprises was purposefully made because there were some gossips already in circulation doubting the authenticity of their ownership. The question was, *who is the true owner of the enterprise you are working for?* The answer was to come from one of the three: Tanzanian or foreigner or I don't know. The interview was conducted to 25 randomly selected enterprises purported to have been sold to citizens of Tanzania. Employees from 20 enterprises co-operated and answered the question. Those from 5 enterprises refused to co-operate for fear that they could loose their jobs.

Results from 20 respondents in a questionnaire were such that: 12 (60%) said the true owners were foreigners, 5 (25%) said the true owners were Tanzanians and 3 (15%) said they did not know. Further, the interviewees conferred with the researcher that the foreign owners were mostly Indians who once lived in Tanzania (before the 1967 nationalization of their assets) but are now living either in Canada, UK and USA. The 'real owners' maintained contacts with their Tanzanian counterparts. The citizens purported to be owners, but in the true sense they were not, as most of the key personnel were expatriates representing the absentee owners and all strategic decisions were either made or approved abroad.[40]

Similarly, when the legal officer with the Registrar of companies was approached to verify on this issue he simply said *our office dealt with documents and not people's*

[40] Interviews with employees of privatized SOEs, October 2001.

faces. However, he conceded that they were aware of such malpractice but that it was difficult to combat as the deals were based on trust between the parties.[41]

6.5: Discussion and conclusion.

6.5.1: Discussion.

The discussion that emanates from the above results focuses on two issues. First, the attainment of the objective of wider ownership participation by people. Second, the pattern of ownership.

The results summarized in table 6.2 indicate that in terms of acquiring 100% equity in the privatized SOEs, local buyers accounted for 40% while foreign buyers accounted for 4% and the remaining 56% is held under joint venture. This is a positive step towards attaining the objective of wider participation by people. Further, in reference to table 6.1, out of the bulk of 190 SOEs held under joint venture only 2% have been listed at the stock exchange and shares accessed by the general public. To the effect that stock exchange is the only mode available to the wider public for the redistribution of national wealth, the fact that 98% of the enterprises held under joint venture are not listed, this is tantamount to not reaching the objective. An explanation advanced by PSRC to this phenomenon was that the *privatization trust fund* was not yet ready to assume its administering function. The issue at stake was, how long would it take for this fund to get ready, considering that privatization exercise started in 1992? In the cases of Chile, Malaysia and the Kyrgyz republic, institutions to administer the redistribution of either shares or coupons such as a private pension fund or a national unit trust were put in place at the time of privatization. In Tanzanian this is not the case. This state of affairs militates against attaining the objective of wider participation by the people.

Concerning the absolute number of privatized SOEs results in table 6.4 indicate that local investors bought assets accounting for majority of the total divestitures, while foreign investors bought assets that were few of the total divestitures in the case study. This was an encouraging picture in terms of widening participation by the people in the economic activities in the country. But the issue at hand is, what is the value dimension of the assets bought by each of the two camps of investors? The answer to this question is given by the discussion related to results in table 6.5.

Results in table 6.5 on the value dimension of wider participation by the people indicate that local buyers own assets accounting for 8% of the total sales value. The foreign buyers own assets accounting for 92% of the total sales value. An explanation to this inequality emanates from the objective itself, as it was not explicit and well targeted. The Malaysian case stipulated a target of 30% of all privatized assets to be owned by the disadvantaged *Bamaputra* people. In the Tanzanian case even an explicit target is absent. Therefore, in the absence of a clear target, attainment of the

[41] Interview with the office of the registrar of companies, October 2001.

objective of wider participation by the people is mitigated. Another dimension is the size and condition of the enterprises bought by each camp. The local camp of investors bought smaller enterprises that were mostly closed down hence lower value. The reason being that the local investors lacked the financial resources needed to compete for bigger enterprises that were operational with higher value compared to foreign investors.

Results from table 6.6 concerning time of sale indicates that during period 1992-96 foreign buyers showed somewhat lesser participation in the privatization exercise compared to local buyers. This phenomenon could be explained in two ways. First, purchasing the SOEs entailed large sums of money. The financial institutions during the early years of privatization were not many[42]. The few that existed lacked the capacity, connections and skills to handle big time International transactions of the magnitude demanded by privatization transactions. This phenomenon could have precipitated delays in meeting PSRC dead lines or could have been considered riskier by foreign investors compared to local investors who knew the local situation better.

Second, memories of the mass nationalizations of private property that took place in 1967 made it difficult for foreign investors to believe what they were witnessing - selling back the nationalized assets, considering that it was the foreign investors who suffered most during the nationalization exercise.

Similarly, results from table 6.9 show that the foreign buyers being somewhat more interested in buying in Dar Es Salaam region. A number of reasons could be advanced to explain this phenomenon. First, economic and business activities in these locations are quite high. Second, availability of business and physical infrastructure for example, Dar is served with international flights, and in addition Dar Es Salaam is the largest seaport in the country. Finally, the location is better placed in terms of economic and social infrastructure.

On the other hand, it appears that the local investors have more preference for other regions than it is for Dar Es Salaam. An explanation to this phenomenon could be that, they are more conversant with the local and regional trade and businesses, which these towns serve. Unlike the other regions, Dar Es salaam carters more for overseas and export businesses, which demands more marketing skills, higher standards of goods and services, and higher working capital, things that the local investors are disadvantaged compared to foreign investors.

On the pattern of business preferences, results in table 6.10 indicate that foreign buyers were somewhat interested in certain types of business notably, manufacturing than they did in commercial line of business. There could be a number of explanations for this pattern of ownership. First, the manufacturing line of business deal with higher value added products that are likely to fetch better prices. Second, products from this line of business have higher export potential thereby ensuring

[42] In 1993 there were only 2 commercial banks, but in 2002 the number had grown to 21 (10 foreign).

them of earning the badly need foreign exchange which facilitates international transactions and connections. Third, this line of business are very demanding in terms of modern technology, modern management and marketing skills, and access to large financial capital. Local investors could not easily mobilize these factors, hence their resort to commercial line of business that are relatively less demanding. Similarly, it partly explains why local investors in the same lines of business with foreign investors, resorted to smaller scale enterprises in the privatization basket.

6.5.2: Conclusion

The main research question that guided the study in this chapter is whether the government encouraged wider participation by the people in the ownership and management of business through the ongoing privatization process? Secondly, whether there has been any ownership pattern when comparison is made between different lines of business, regional locations and time of sale?

The issue of wider ownership participation by the people leaves much to be desired. The fact that foreign buyers own a few but most valuable portion of the former state owned enterprises, a accounting for 80-92% of the total sales value of all privatized assets against local buyers who own only 8-20%, the objective is very far from being achieved. Further, so long as the bulk of government shares held under joint venture with the private investors are yet to be listed and sold on the stock exchange, participation of the general public in the entire privatization exercise will remain low. Further, unless the local investors are financially enabled to access bigger and operational enterprises, participation of the general public in the entire privatization exercise will remain low.

Finally, there is an emergent pattern of linkages between buyers and certain lines of business and regional locations, even if the pattern is not that strong. Foreign buyers prefer business lines with high added value and export oriented. Similarly, foreign buyers preferred to locate in cities that are active in economic activities with requisite social and economic infrastructure. On the other hand, local buyers were somewhat evenly distributed to all lines of business and locations throughout the country. Similarly, foreign investors showed somewhat lesser participation in the early years of privatization than local investors probably due to the infancy of the financial institutions in the country, coupled with fears related to earlier nationalization of private property that took place in the past.

CHAPTER SEVEN:
DEVELOPMENTS AFTER PRIVATIZATION

7.1: Introduction and purpose of the study

7.1.1: Introduction

This study sets out to investigate the aftermath of privatization with respect to changes of ownership and physical developments in relation to time, location and line of business of a privatized property.

The study focuses on changes of ownership and physical developments in the sold enterprise because almost all businesses being privatized involve in one form or the other the transfer of the rights to use, occupy or own specific interests in land to new owners. Indeed land (or at least, location) is often the major asset being transferred (PSRC, 1994). In many cases such changes cannot be effected without touching the relevant legislations of the country. For example, ownership or transfer of specific interests in land is regulated by the land act, 1999. Sections 19 & 20 dwell on the rights to occupy land by citizens and non-citizens; sections 36-43 regulate transfers of any rights to land. Similarly, the town and country planning ordinance cap 378 of 1956, regulate any physical developments on interests in land occupied or held under the land act, 1999. These two basic statutes shall always be referred to at appropriate times in the course of discussion in this study.

7.1.2: Purpose of the study.

There has been discontent from the general public that a number of privatized firms are neither in operation nor implementing what the buyers had pledged to do in their investment plans as contracted with the Parastatal Sector Reform Commission. The general public pointed out cases where a factory previously manufactured electrical light bulbs has been converted into a warehouse for the same imported product or where a factory previously manufacturing vegetable oil is operating as a packing plant for refined vegetable oil imported from the far east etc.[43] If such cases are true, these are likely to result in unemployment and deprive the market for the agricultural produce like cotton and sunflower seeds.

In view of the general public discontent, this study sets out to investigate the changes of ownership and physical developments that have taken place after privatisation. That is, have the properties been resold or still belonged to the initial owners? And what has happened to the original developments in the privatized properties? A second objective is to investigate if there exists any relationship between changes in ownership and physical development in one hand and time, location and line of business on the other hand.

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[43] Business Times, January 10th - 16th, 1997.

In line with the stated purpose, the main research question that guides this study is in two parts. First, have there been any changes in the ownership and physical developments on the former state owned enterprises after privatization? That is, has the properties been resold or still belong to the initial owners? And what has happened to the original developments in the privatized properties? Second, does changes in ownership and development relate to time, location and line of business?

7.2: Earlier research.

In recent times, most empirical studies have looked into the effects of privatization and new ownership structures on enterprise performance in transition economies of Eastern Europe. The empirical evidence emerging from these studies gives a mixed picture on the hypothesis that enterprises perform better after privatization (Earle and Estrin, 1996; Konings, 1998). It is explained that this could be a result of the new ownership structure in place after the mass distribution of vouchers (Konings, 1998).

Djankov (1999) investigated the relation between ownership structure and enterprise restructuring for 960 firms privatized in six newly independent states between 1995 and 1997. World Bank had collected the data employed from Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, and Ukraine. The study revealed that there is link between managerial ownership and a firm's performance, that this link is statistically significant and positive where the managers' ownership share was smaller (under 10%) and larger (below 30%). In the middle range, the link was negative. Employee ownership is beneficial to labor productivity at low ownership levels, but is otherwise insignificant (Djankov, 1999). In yet another study, it is demonstrated that managers should have the main role in the decision making process with minor worker's influence on corporate governance (Brada and Singh, 1998).

Another study was carried out on 127 large and medium sized Slovenian enterprises in the period 1996-98 (Prasnikar et al., 2000). The main hypothesis was that the pace of restructuring depended more on which of the firm's interest groups (managers/workers) has the prevalent influence on decision making than it does on ownership structure. An observation was made on two sub-groups of firms that differ in how much workers influence the decision making process. The results were such that first, the ownership structure of firms changed during the study period, such that the ownership share of state funds and that of employees have been falling versus the ownership shares of investment funds, other firms and managers have been rising. That is, the latter group comprising investment funds, other firms and managers was gaining importance in the decision making process in their respective firms. Secondly, those firms in which the share of employee representatives on the supervisory board is below 50% have been more successful in their defensive restructuring (downsizing loss making activities and associated retrenchment of excess workers). This group also recorded positive achievements in financial rehabilitation of their firms. Similarly, this group replaces mangers quickly and tends to employ younger managers with higher education. Finally, this group attracts more new buyers at relatively lower marketing cost than the other group, which has a larger share of employee representatives on the advisory board.

A study conducted on the manufacturing sector of privatized firms in Tanzania indicates that there has been significant improvement in their performance (Moshi,2001:13). The studied firms were, Tanzania breweries limited (TBL) and Tanzania Electrical Goods Manufacturing Company (TANELEC). In case of TBL, capacity utilization increased from 20% before privatization (1992) to 90% after privatization (2001). In case of TANELEC, capacity utilization increased from below 50% before privatization (1995) to nearly 100% after privatization (2001). The scholar attributes the turnaround of the privatized enterprises to a number of factors namely: improved accessibility to finance, acquisition of modern technology, a competent and accountable management that is cost conscious, improved incentives to workers, targeted training to employees, friendlier government policy towards the private sector and near monopoly positions of the studied firms.

Unlike the cited empirical evidence above that focused on enterprise performance after privatization, the focus of the present study is on the transformation of types of ownership and physical developments in the privatized properties in Tanzania. Ownership of any productive asset can never be static in a dynamic business world. Changes are bound to take place in response to market forces of supply and demand, and to socio-political changes at country, regional and global levels. For example, in Malaysia the most popular type of owning business is joint venture between foreign and local investors because the socio-political environment so demands.

Similarly, changes in the activities of the productive assets are no exception to changes in market and socio-political conditions. Activities change in response to changes in consumer preferences, technological innovations and to changes in statutes or regulations in particular country. For example, increased legislation on rent controls and protection of residential tenants is likely to diminish returns and increase the risk of keeping rent defaulters. This in turn, will create an incentive to investors converting residential property to commercial uses, which have neither rent control nor protection of tenants.

7.3: Results.

This part of the study took place between July 1st 2001 and November 30th 2001. Observation was conducted to a sample of 43 SOEs, which resulted from a larger sample comprising 80 SOEs used in an earlier study (see chapter six). The data were collected from firms that were primarily privatized between 1992 and 1998 (only one case was privatized in year 2000).

The collected data is analyzed by descriptive statistical method. Under the method, frequency tables, percentages and narrative notes to explain data summarized in the tables are used. Tables 7.0 to 7.7 present data collected by this study. The results have been presented under two broad groups namely changes in ownership and changes in physical developments.

7.3.1: Changes in ownership.

On the issue of changes in ownership, there is whole range of possibilities that are likely to take place. The study envisaged three possibilities. First, the initial owner may not have any incentive to do anything, so decides to retain and operate the entire enterprise by 100%. Second, the initial owner may have an incentive to partition the property and sell away portions. Third, the initial owner may have an incentive to partition the property and lease out portions. In the real sense, the options are plenty and the list could be very long, but the study decided to limit itself to the three options.

In table 7.0 through to table 7.3, for the sake of easier analysis and economy of space, the three types of changes of ownership have been denoted by three abbreviations, 'Whole', 'Sell', and 'Lease'. That is, 'Whole' denotes initial owner who still holds the whole firm 100%; 'Sell' denotes initial owner who has sold part of the firm; 'Lease' denotes initial owner who has leased part of the firm.

In table 7.0 the aggregate changes in each of the three types of ownership were observed and presented.

Table 7.0: Aggregate changes of ownership

Type of Owner	*Observations*	*%*
Whole	25	58
Sell	3	7
Lease	15	35
Total	*43*[44]	*100*

Source: Field survey, 2003.

Results in table 7.0 presents the total outcome in each of the three types of ownership such that initial owner holding the entire property account for the majority, followed by initial owner leasing part of the property and finally, initial owner selling part of the property account for the least observations.

In table 7.1 below changes in each of the three types of ownership are observed in relation to time of sale, which is divided into two periods, early (1992-96) and later (1997-2000).

[44] Some of the enterprises displayed more than one type of ownership E.g. Tanzania breweries ltd.

Table 7.1: Changes of ownership over time of sale

Type of Owner	Early (1992-6)	%	Later (1997-00)	%	Total	%
Whole	12	57	13	59	25	58
Sell	02	10	01	05	03	07
Lease	07	33	08	36	15	35
Total	21	100	22	100	43[45]	100

Source: Field survey, 2003.

In regard to changes of ownership in relation to time, table 7.1 show that there was almost exactly the same distribution between the different types of changes in both periods. As it was obvious that there was not significant change, it was not meaningful to make a formal statistical test.

In table 7.2 below changes in each of the three types of ownership are observed in relation to location, which is divided into two zones Dar (Dar Es Salaam,Coast& Morogoro) and Other regions(the remaining parts).

Table 7.2: Changes of ownership between locations

Type of Owner	Dar	%	Others	%	Total	%
Whole	16	59	09	56	25	58
Sell	02	08	01	06	03	07
Lease	09	33	06	38	15	35
Total	27	100	16	100	43	100

Source: Field survey, 2003.

In reference to changes of ownership in relation to location, table 7.2 indicates that there was no significant difference between the patterns of ownership changes in different regions.

In table 7.3 below changes in each of the five types of ownership are observed in relation to line of business, which is divided into two lines, factory and commercial.

For the sake of chi-square test table 7.3 below was also used. The *sell type of ownership* was left out in chi-square test because it was regarded as an outlier since in one of her cells under commercial, the expected count is zero.

[45] Some of the enterprises displayed more than one type of ownership E.g. Tanzania breweries ltd.

Table 7.3: Changes of ownership between types of business

Type of Owner	*Factory (*	*%*	*Commercial*	*%*	*Total*	*%*
Whole	21	62	04	44	25	58
Sell	03	09	0	0	03	07
Lease	10	29	05	56	15	35
Total	34	100	09	100	43	100

Source: Field survey, 2003.

The results concerning changes of ownership in relation to type of business as appears in table 7.3, show that changes varied in magnitude over the two lines of business as follows: First, under firms in manufacturing business results were such that initial owner who holds the whole firm accounted for the majority outcome, followed by initial owner who leased part of the firm, while initial owner who sold part of the firm accounted for least outcome. Second, firms under commercial business results were such that initial owner who leased part of the firm accounted the majority outcome, followed by initial owner who holds the whole firm, while initial owner who sold part of the firm accounted for the least observations.

According to results from chi-square test significance value of 0.204 was found. This implies that there were no clear relationship between type of changes of ownership and type of business.

7.3.2: Changes in physical developments

Similarly, concerning changes in physical developments, there is whole range of possibilities that are likely to take place. The study envisaged four possibilities. First, where the original activity remains unchanged and major investment is undertaken. For example, when the investor in beer factory replaces old machinery with modern ones or where investor installs an additional production line for a new brand of beer and so on. Second, where the original activity remains unchanged and only light investment is undertaken. For example, when an investor decides to repair the existing machinery by replacing the worn-out parts with new spare parts. Third, where the original activity changes and is replaced with a new activity but with light investment. For example when a shoe factory is changed into a warehouse or where a hotel is changed into an office building etc. While the first and second developments aim at increasing output and productivity within the original uses, the third development amount to absolute change of use.

For the sake of easier analysis and economy of space, abbreviations in tables 7.4 to 7.7, denotes the three types of physical developments. Abbreviations *'Original & major'* denotes developments where the original activity remains unchanged and major investment is undertaken, *'Original & light'* denotes developments where the original activity remains unchanged and only light investment is undertaken, and *'Replace &*

light' denotes developments where the original activity changes and is replaced with a new activity, entailing light investment.

Table 7.4 below relates the three types of physical developments with the total out come.

Table 7.4: Changes in physical developments versus total outcome

Type of Development	*Observations*	*%*
Original & major	10	23
Original & light	32	75
Replace & light	1	2
Total	*43*[46]	*100*

Source: Field survey, 2003.

Results from table 7.4 show that original activity with light investment dominated the observations, followed by original activity with major investment and lastly came original activity with light investment.

Table 7.5 below presents results of changes in physical developments in relation to time of sale.

For the sake of chi-square test table 7.5 below was also used. The replace & light type of development was left out in chi-square test because it was regarded as an outlier since in one of her cells under later time, the expected count is zero.

Table 7.5: Changes in physical developments over time

Type of Development	*Early*	*%*	*Later*	*%*	*Total*	*%*
Original & major	7	33	3	14	10	23
Original & light	13	62	19	86	32	75
Replace & light	1	5	0	0	1	2
Total	*21*	*100*	*22*	*100*	*43*	*100*

Source: Field survey, 2003.

In regard to changes in physical developments in relation to time, table 7.5 indicates that changes varied in magnitude over the two time periods. First, during the early period original activity remains unchanged and light investment is undertaken dominated, followed by original activity remains unchanged and major investment, while the last

[46] One enterprise underwent two developments i.e. MOPROCO Ltd.

position was claimed by a new activity entailing light investment. Second, during the later period a new activity entailing light investment dominated very clearly.

According to results from chi-square test a significance value of 0.104 was found. This implies that there were a scanty relationship between change in physical development and time period.

In table 7.6 below activities in each of the three groups of developments are observed in relation to location, which is divided into two zones, Dar (Dar es salaam, Coast, Morogoro) and Others (the remaining regions).

Table 7.6: Changes in physical developments between locations

Type of Development	*Dar*	*%*	*Others*	*%*	*Total*	*%*
Original & major	07	26	03	19	10	23
Original & light	19	70	13	81	32	75
Replace & light	01	04	0	0	01	02
Total	*27*	*100*	*16*	*100*	*43*	*100*

Source: Field survey, 2003.

As far as changes in physical development in relation to location, table 7.6 indicates that there were very small differences between the regions. No formal statistical test was judged to be necessary. In both regions it were the case that developments where the original activity remains unchanged and light investment is undertaken dominated the observations, followed by original activity remains unchanged and major investment is undertaken, while replace and light investment featured least of all.

In table 7.7 activities in each of the three groups of developments are observed in relation to line of business, which is divided into two groups, factory and commercial.

Table 7.7: Changes in physical developments between types of business

Type of Development	Factory	%	Commercial	%	Total	%
Original & major	10	29	01	11	10	23
Original & light	23	68	08	89	32	75
Replace & light	01	03	0	0	01	02
Total	34	100	09	100	43	100

Source: Field survey, 2003.

The analysis of changes in physical developments in relation to line of business, as in table 7.7, shows that changes varied in magnitude over the two lines as follows: In both types of business, developments where the original activity remains unchanged and light investment is undertaken dominated the observations, but the domination is somewhat stronger in commercial type of business, while a larger share of factory type of business had made major investments.

7.3.3: Reporting and follow-up

The other result from the questionnaire concerned whether or not the new owners made any periodic reporting to PSRC concerning progress made in the investment plan. In all 43 cases, there was no reporting whatsoever, except when a government official for example, a minister or the president visited their enterprise. A follow-up interview to PSRC concerning the same issue indicated that follow-ups made by PSRC were limited to unpaid installments of the purchase prices. Further that, follow-ups with respect to the implementation of the investment plans was the responsibility of the parent ministry under which the subject enterprise belonged to[47]. The issue was further pursued with another interview to three government ministries, only to be told that no follow-ups were being made, that plans were at very advanced stages to implant the same[48].

7.4: Discussions and conclusion

7.4.1 Discussions

7.4.1.1: Changes of ownership and overall results

In regard to changes of ownership a number of issues deserve discussion. First, there were not much changes of ownership where initial owner held the whole firm. Second, changes of ownership occurred where initial owner had leased part of the firm that is, lease holding and in all occasions the leased portion appeared smaller than the portion left with the initial owner.[49] Third, changes of ownership occurred where initial owner had sold part of the firm that is, severance. And in all occasions the severed portion appeared smaller than the part left with the initial owner. Alternatively, non-core assets such as residential houses or warehouses of a manufacturing firm were sold[50]. These results explicitly show that most of the privatized firms are to a largest extent still under the initial owners who bought them from the government.

This situation could be explained by number of factors. Firstly, it could be so due to the fact that the property market is not active enough to attract potential willing buyers and sellers to participate. That is, property information transmission networks are lacking; this is coupled with a general lack of estate agents or brokers, and the infancy of the stock exchange market, which was only eight years old at the time of the study. Secondly, in

[47] Interview: PSRC information unit, October 2001.
[48] Interviews: ministries of Agriculture, Trade/Industry, and Natural resources/tourism, October 2001.
[49] For example Tanzania breweries Ltd leased her barley farms in west kilimanjaro to out-growers, Tanzania shoe company Ltd leased her ware houses to hardware traders etc
[50] For example Tanzania breweries Ltd sold most of her regional depots, Tanga cement co. Ltd sold her residential houses not in the vicinity of factory area etc

virtually all privatizations there is a restrictive condition attached requiring the buyers to develop their firms within the uses that prevailed prior to privatization. The idea behind such restriction is to ensure that the objectives behind the establishment of these state owned enterprises namely, import substitution, job creation, self sufficiency and export promotion are sustained by the new private investors (PSRC, 1993). Such restrictions would simply put off prospective secondary buyers who would like to engage in other lines of business. Thirdly, the government machinery that regulates property and business transfers from one owner to another is lengthy and cumbersome, thereby discouraging both prospective sellers and buyers (Ruth et al, 1997). Indeed, such delays are very costly, in terms of timing and missed opportunities to prospective investors.

7.4.1.2: Changes in physical developments and overall results

In reference to changes in the physical developments, the results were such that the developments comprising 'light investments within the original activity' accounted for the majority of all cases observed. The reality here is that the bulk of investors continued with the activities prevailing at the time of privatization and injected small amounts of capital for the procurement of either worn out spare parts or diminished raw materials or improved packaging and marketing of the products. This is what took place for example at the three Portland cement factories located in Dar, Tanga & Mbeya towns. This is a typical situation where the government restructured an enterprise before privatizing it. Such restructuring measures included, hiring foreign management firms, retrenching workers etc.

The phenomenon can have several explanations. First, the plant and machinery in such enterprises were in good working condition at the time of privatization. Second, The technology employed in the various processes in the enterprises was not yet obsolete. Third, this was considered the safety option to be pursued by the new investors while they were still studying the local and international business environment amidst much wider economic reforms in progress.

Similarly, physical developments comprising 'major investment within the original activity' were small in all cases observed. In here investors continued with activities prevailing at the time of privatization but incurred heavy capital expenses to replace obsolete machinery with modern ones, completed abandoned development projects, recovery of markets lost to competitors, introduction and launching of new products, introducing staff into new skills through short courses conducted in-house or abroad etc. This is what took place at Tanzania breweries Ltd, Tanzania Cigarette co. Ltd, and Tanalec Ltd. This phenomenon is explained by the fact that, enterprises falling under this category were the best performers in the economy prior to their privatization. They were monopolies in their respective sectors. Therefore, demand for their products was very strong and excessive in most cases. Increased output to meet this demand and improvement of quality to their product were about all that was needed by the new buyers.

There is yet another change in physical developments that comprised 'developments where the original activity changes and replaced by a new activity entailing light investment' accounting for a very small proportion of all cases observed. This is a situation whereby investors switches over to another use which is more or less similar to the initial use at the time of privatization, thereby minimizing costs and at the same time playing it safe with the government regarding restriction against changing uses[51]. Explanation to this situation is closely linked to two reasons first, restrictions on any unilateral change of use by investors without consulting government; secondly, uncertainty in business prospects as compounded by poor transportation networks, poorly provided and expensive utilities like water, electricity and telecommunications.

7.4.1.3: Changes of ownership compared across time, business and location

Results on changes in ownership with respect to time, location and line of business is discussed here below.

The above results indicate that initial owners of firms privatized in both periods (early and later) resorted more to holding the whole of their properties rather than selling or leasing. This could be explained by one possible factor. The first generation business owners wanted to take more time learning the new business and legal environment before taking any steps to develop their properties or carry out any transaction.

In regard to changes of ownership between different locations, concerning initial owner holding the whole enterprise, the differences between one location and another is small. This could imply that this type of ownership is evenly distributed across all locations. Being a reflection of the fact that the property market is yet to be active and vibrant due to probably lack of financing facilities, lack of free flow of information and some restrictions on free selling of property without prior consent from the government. As for initial owner selling part of the enterprise, the domineering of Dar Es salaam could be explained by the fact that, the little that is transacted in the non-vibrant market, takes place in locations where economic and business activities are most active in the country. Concerning initial owner leasing part of the enterprise, the results show that it is sort of evenly distributed across all locations. Since it is the second popular form of ownership (after initial owner holding the whole firm), the explanation to this phenomenon are similar to those pointed out for the first popular form of ownership.

The results concerning ownership changes between different types of business was such that, initial owner holding the whole enterprise dominate more in manufacturing business than in commercial business. This indicates that, it is more difficult to change ownership of a manufacturing entity than it is with a commercial entity. The reasons being that, first, in the former case, larger amount of capital is needed in effecting such a transaction. Second, a lot of changes take place in relation to technology marketing skills and in order to cope with such changes more expenditure becomes necessary. Partial selling of

[51] A vivid example was at MOPROCO where part of the edible oil factory was converted to ware housing and panel beating house for buses & trucks belonging to a sister company. Also, at Tanzania shoe company where part of the factory floor was converted to warehousing and leased-out to hard ware traders.

enterprise assets featured under manufacturing only because it is under this line of business where capital requirements are highest. Hence resort to selling the non- core assets and re-invest the proceeds of sale into the core activities of the enterprise. Leasing part of the enterprise featured more in commercials than in manufacturing because of the formers relatively lesser capital requirements, flexibility and easier divisibility without affecting the core activities, hence accessible to many smaller-time business entrepreneurs.

The above results reflect the relative importance and business potentials possessed by each line of business, such that the sector with high business potential display more changes of ownership than the less potential ones. The importance and potentiality of any business is closely related to the linkages (forward & backward) it has with other sectors in the local & international economy, market prospects of its products (local & export), its adaptability to technological changes etc.

7.4.1.4: Changes in physical developments across time, location and type of business

The changes in the physical developments over time, location and line of business are discussed here below.

The distribution of changes in physical developments within each time period was such that ‘major investments within original activity’ dominated the early period somewhat more than it did in the later period. This could be explained as follows, business prospects were very promising at first particularly when one takes on board the incentive packages unfolded by the governments to the new investors. Second, most of the best and operational enterprises were sold first during the early period. These considerations motivated the new investors to undertake major investments in their enterprises.

Light investments within original activity dominated in the later period than it did in the earlier period, and light investments within changed original activity featured in early period only. This type of physical development was popular because it is very likely that investors were increasingly becoming aware that local business prospects were not as promising as it appeared in their first instance, thereby resorting to a middle of the road approach to avoid the full wrath of risking loss of or tying-up of investment capital. Second, the best SOEs with good business prospects that incited investors to undertake major investments were sold in the years 1992-95, there after most of the enterprises sold were second best, hence need for proper appraisals and feasibility studies before investing more capital on top of the initial purchase price; while such process was in progress, most risk averse investors could only undertake light investments.

Results concerning changes in physical development between different locations, all three types of developments featured more in Dar Es salaam than in other regions. This could be explained by the fact that, the city is a leading business centre in the country endowed with a seaport, an international airport and the best infrastructure. Hence, the city is economically vibrant, all enterprises situated in there are assured of both local and international markets.

In regard to changes in physical development between different types of business, under original activity with major & light investment, factory featured more than commercials. This could be explained by the relative business potential possessed by factory business, such that the most potential business has more physical development changes while the least one has fewer changes. The potentiality of any business is closely related to the linkages (forward & backward) it has with other sectors in the local & international economy, market prospects of its products (local & export), and its adaptiveness to technological changes.

7.4.1.5: Reporting and follow-up

As for the feedback mechanism with respect to investment plans, there is much to be desired. In many cases, enterprises were sold at low prices as a trade off for the investment plans. This is done based on the fact that in the long run investment plans if implemented result-in more permanent benefits to the economy than does the purchase price. The benefits include, employment creation, increased output and productivity, improved skills and technology etc. How come, nobody is making any follow-up sixteen years after the privatization exercise started? The only explanation to this phenomenon is lack of incentives on the part of the respective government officials entrusted with this task.

7.4.2 Conclusion

The research question that guided this study is in two parts. First, have there been any changes in the ownership and physical developments in the privatized state owned enterprises? Second, does changes in ownership and physical developments have any relationship with time, location or lines of business?

The study found that changes of ownership did take place in three forms namely; owners holding the entire privatized firm, partial leasehold, and partial sales. A number of factors could have brought about this situation. First, lack of enabling property market conditions. Second, restrictive conditions attached to the future development of privatized properties. Third, red tape in government machinery during ownership transfer.

Similarly, changes in the physical developments did take place in three main categories namely, light investment within original activity, major investment within original activity, and change of activity with light investment, This could be explained by existence of restrictive conditions attached to future changes in use; prevailing uncertainty concerning business prospects as compounded by under-provision of social and economic infrastructure.

Further, the study found that there was only a weak link between changes in ownership and physical development with respect to time, location and line of business.

In a nutshell, developments within privatized properties were dominated with initial buyers' owner occupation, light investments within initial activities that were somewhat related to time of sale, location and line of business of the privatized properties. Finally, there is an urgent need to monitor developments going-on in the privatized enterprises as contracted in the sale agreements. An enforceable feedback mechanism should be worked-out by the relevant authorities - in this case, the ministry responsible for privatization.

Finally, there is need to establish a feedback mechanism with respect to investment plans. In many cases, enterprises were sold at low prices as a trade off for the investment plans. This is done based on the fact that in the long run investment plans if implemented results more permanent benefits to the economy than does the purchase price. The benefits include, employment creation, increased output and productivity, improved skills and technology etc. How come, nobody is making any follow-up sixteen years after the privatization exercise started? The only explanation to this phenomenon is either lack of seriousness or poor incentives on the part of the respective government officials entrusted with this task.

CHAPTER EIGHT:
CONCLUSION TO THE STUDY

8.1: Objectives of privatization

The objectives have been categorised as primary and secondary. The classification only serves to show the order of preference but all have to be attained. The following are the *primary objectives*, which have been defined in the Government's policy statement on Parastatal Sector Reform:

- Improve the operational efficiency of enterprises that are currently in the Parastatal sector, and their contribution to the national economy;
- Reduce the burden of Parastatal enterprises on the Government budget;
- Expand the role of the private sector in the economy, permitting the Government to concentrate public resources on its role as provider of basic public services, including health, education and social infrastructure; and
- Encourage wider participation by the people in the ownership and management of business.

In so far as their pursuit is consistent with the primary objectives, the PSRC intends to ensure that divestiture meets the following *secondary objectives*:

- To create a more market-oriented economy;
- To secure enhanced access to foreign markets, capital and technology;
- To promote the development of the capital market; and
- To preserve the goal of self-reliance.

A good objective set by any organization or individual in business must be 'SMART' That is the objective should be 'S'pecific, 'M'easurable, 'R'ealistic, and 'T'ime bound. (Hunger and Wheeler, 1993: 15). It appears that both the primary and secondary objectives set by the government to guide the privatization process fell short of meeting this basic requirement. An objective, which is not 'SMART', presents problems in measuring performance for lack of benchmark.

Nevertheless, in order to overcome the above deficiency, the study established alternative benchmarks against which to measure performance in each of the five related aspects covered by this study. Also experience from other countries assisted in measuring the attainment of privatization objectives. Sections 8.1.1 to 8.1.5 below outlines a summary of sub-conclusions reached at by this study.

The sub-conclusions below address the main research question guiding this study, which is twofold first, how was privatization process carried-out towards meeting the stated objectives? And second, did asset valuation had such quality that it could assist decision-making at PSRC?

Strategy formulation being undertaken by PSRC did not sufficiently promote higher competition, higher prices and higher government revenue. In order to improve the effectiveness of the strategy formulation process so that it yields better results compatible with the privatization objectives, the following deliberate measures need to be considered: (1) All strategies formulated by PSRC should be approved by parliament; (2) Strategy Formulators should be remunerated at market rates; (3) Speed of privatization should be regulated to six months; (4) Participation by managers should be encouraged; (5) Privatization through the modality of "asset sale"should either be discouraged or carried out in better ways such as through sale by public auctions, as of now only sale by tender method is currently in use; and (6) Strategies that promote wider ownership and higher competition such as Public share offering; Collective investment programs should be encouraged.

The Valuation firms hired by PSRC did not use the best valuation methodology, such that certainty in estimating property values suffered. Considering that certainty in estimating property values suffered, then it can be said that Valuation methodology was less able to produce reasonable value estimates that could be relied upon by decision makers at PSRC in determining the reserve price for the SOE earmarked for privatization.

It is very likely that the deficiency in the valuation methodology in Tanzania could be due to a combination of many interrelated factors such as absence of comparable transaction data, mandatory valuation approval by the chief government valuer, lack of national valuation standards, use of improper valuation methods, hasty submission of valuation reports, engagement of non-specialist valuers, and absence of a public panel during submission of valuation report to clients.

Valuation estimates in Tanzania were found to be higher than sale prices. The few cases whose valuations were below prices were negligible to warrant any meaningful discussion or comparison between under valuations / overvaluation cases. Similarly, the proportion of the acceptable margin of error in the case study indicates that in Tanzania valuation estimates are not good proxies of sale prices.

The objective of wider ownership participation by the people leaves much to be desired. The fact that foreign buyers own a few but most valuable portion of the former state owned enterprises, a accounting for 80% of the total sales value of all privatized assets against local buyers who own only 20%, the objective is very far from being achieved. Further, so long as the bulk of government shares held under joint venture with the private investors are yet to be listed and sold on the stock exchange, participation of the general public in the entire privatization exercise will remain low.

Changes of ownership did take place in three forms namely; owners holding the entire privatized firm, partial leasehold, and partial sales. A number of factors could have brought about this situation; first, lack of enabling property market conditions; second, restrictive conditions attached to the future development of privatized properties and third, red tape in government machinery during ownership transfer.

Changes in the physical developments did take place in three main categories namely, light investment within original activity, major investment within original activity, and change of activity with light investment, This could be explained by existence of restrictive conditions attached to future changes in use; prevailing uncertainty concerning business prospects as compounded by under-provision of social and economic infrastructure.

Finally, there is an urgent need to monitor developments going-on in the privatized enterprises as contracted in the sale agreements. An enforceable feedback mechanism should be worked-out by the relevant authorities - in this case, the ministry responsible for privatization.

8.2: Consistency of the goals

There appear to be elements of contradictions between the stated objectives. For example:

1. Encourage wider participation by the people in the ownership and management of business *versus* improve the operational efficiency of enterprises. One of the most frequent criticisms of broad-based ownership schemes (particularly the voucher programs) is that enterprise risk being 'orphaned'. That is, ownership can become so widely diffused that there will be no dominant owner to compel good management. In other words wider ownership participation negates operational efficiency of enterprises.

2. To create a more market-oriented economy *versus* to preserve the goal of self-reliance. Self – reliance is a remnant of the planned economy. In 1967 when Tanzania switched over from market based economy to a planned economy through the 'Arusha declaration', the *catchword* used was to build a socialist and self-reliant state. Can the two opposing objectives be achieved at the same time?

3. Expand the role of the private sector in the economy *versus* to preserve the goal of self-reliance. This contradiction is again similar to number two above.

In the light of such contradictions setting of benchmarks to measure performance of stated objectives becomes difficult. A good objective set by any organization or individual in business must be 'SMART' That is the objective should be Specific, Measurable, Realistic, and Time bound.

8.3: What could have been done?

8.3.1: Experience from Eastern Europe

The argument for privatization is that competing business enterprises in the hands of private owners can perform better than when the same enterprises are owned by the state. But, is it always the case that privatization and the related market reforms bring better results to every economy? May be not, a few examples illustrate the issue. In Russia, privatization and market-oriented reforms that started in early 1990s have resulted in a decline in the economic activities such that the GDP has gone down, life expectancy has gone down, poverty is up from 2% of the population (before reforms) to over 40% in 1998. Russia is typical case where privatization and related reforms took place rapidly, shock therapy approach. However, in Poland, Hungary, and Slovenia reforms have resulted in a positive growth in the economic activities and improved standard of living to the ordinary citizens. These three countries represent a case where privatization and related reforms was gradual, case-by-case approach (Stiglitz, 2002; Megginson et al, 2001).

These results did hold during the first decade (1992-2002) of reforms particularly in Russia. As of now (2003-2008) things are very different in Russia. Her economy is enjoying a boom due to price rises in the energy sector (natural gas and fossil fuels)

8.3.2: Preconditions for a successful privatization

So, why this disparity in results whiles both Russia on the one hand and Poland on the other hand were in transition from planned economic system to market oriented system? There are some important preconditions that have to be satisfied before privatization can contribute to an economy's growth. According to Stiglitz (2002) the preconditions are:

First, the speed of privatization process matters. The faster the speed of privatization, the worse the results because some of the businesses owned by the state are not easily replaceable by the private sector, for example, social security systems, unemployment & disability insurances, micro-finance institutions serving the low-income bracket etc.

Second, privatization of utilities and natural monopolies should not take place unless there is adequate regulatory or competition framework. Otherwise, you end up creating private monopolies with the resultant higher prices of goods & services.

Third, safety nets for unemployment should be in place before privatization as it usually results in mass lay-offs of labor. Otherwise, there would result increased social cost like urban violence, increased crime, political unrest, widespread anxiety even among retained workers, broader sense of alienation, withdrawal of children from school to meet family obligations etc.

Fourth, privatization should not take off until there is in place appropriate legal institutions (laws, police, courts, Arbitrators etc); *market institutions* (Banks, Capital markets, etc); *corporate governance; fiscal governance of the economy* (inflation rate, interest rates, government borrowing etc); Without these in place, new owners may strip the assets of the privatized enterprises rather than expand the economy, a case in hand is Russia (Stiglitz, 2002).

8.3.3: Preconditions for reliable asset valuation

The privatization process requires proper estimation of values to enable governments to set benchmark prices for which their enterprises shall be sold. This makes valuation an equally important aspect in the privatization process. However, in order for valuation process to come-up with reliable value estimates, certain conditions have to be met.

First, the property market should at least display the minimum conditions of a 'real' market. This is important because any valuation would need recent and reliable information from market evidence. This condition carries with it a presumption that some form of institutions is needed to compile and keep such data so that it is accessible at reasonable cost.

Second, there should be in place institutions for training and regulating the conduct of valuers. The institutions will ensure that all members of the profession adhere to certain rules of conduct and standards. Any infringement must carry with it legal and disciplinary penalties.

Third, selection of a valuation firm to a particular task should be competitively and transparently done. This will ensure that incompetent firms have no access to jobs.

Fourth, valuation firms should be adequately and promptly paid. This move would defeat any attempts to lure valuers into corrupt or unethical practices.

8.3.4: Conclusion

Both privatization and valuation stand to yield expected results where the market system and its institutions are well developed and are functioning properly. But, is such a situation tenable in all countries? May be not, other places like the developed economies of the western Europe and North America are well stocked with the best market systems in the World, compared to countries in Eastern Europe and the developing World camp comprising, Latin America, Asia, and Africa (including Tanzania).

However, going by the findings in this study, one is inclined to conclusion that privatization process in Tanzania could have been carried out in better ways and yielded expected results than it is now, had there been reasonable and basic preparations prior to its take off.

8.4: Contribution of the study

The study has made contribution on two main fronts namely, on policy perspective and on the academic perspective. On the policy perspective, the findings of this study will equip policy makers with a feedback. Using this feedback, the policy makers will be able to compare what is actually happening in the field against what was originally planned during the formulation stage of privatization exercise. In the end the policy makers should be able to institute corrective measures in case of any deviation or reinforce the present measures where things are in the right direction.

On the academic perspective, the findings in this study shall be another contribution into the existing stock of knowledge in the areas of formulation of privatization strategies, quality of valuation methodology, valuation error, buyers of state owned enterprises, and developments after privatization in Tanzania. The results from this case study of Tanzania can together with results from studies in other countries be the base for more general statements about privatization strategies and privatization results.

8.5: Recent developments

Since the studies presented in this thesis were carried out, there has been formation of collective investment programs. At the time of data collection these programs did not exist. As of now two programs are operating namely: 'National investment company limited' (NICO - 1994), which is privately owned by individuals who have bought shares and 'Umoja fund', which is government owned (1995) which is financed from proceeds of the privatization exercise.

Also government shares retained in privatized firms (in joint venture cases) have been recently sold to the general public (public share offering). Examples of such sold shares were held in the Tanzania breweries limited and in the National bank of commerce.

A few cases of privatizations have failed. Examples of failed cases include:

- DAWASA – a water supply authority for Dar Es Salaam. In here the water authority had been leased to foreign investor who subsequently breached the contract for failure to commit investment funds to improve the water supply services. The investor known as City Water (a British company) had services terminated in mid 2004.
- TANESCO – an electric power supply company for the entire country. The government had entered a management contract with a foreign company. Upon expiry of the first term the government refused to renew another term due to poor performance. 'Net group solutions' (a South African company) had her services termited in December 2005.

- MUTEX – a textile factory situated in Musoma town. The PSRC took back the factory from the first purchaser for failure to complete payment in the sale agreement. There are many other instances similar to this[52].

Apart from failed cases in privatization, there have been successful cases worth mentioning. The successful cases included:[53] Tanzania breweries limited (TBL), Tanzania cigarette company (TCC), cement companies, tourist hotels and Morogoro canvas mill.

- TBL modernized the Dar Es Salaam and Arusha plants, built a new brewery in Mwanza. As a result, production of beer increased fivefold and there is more variety to suit customers. TBL is even exporting beer to Australia, Europe and USA.

- The same success story is narrated at TCC after undertaking major rehabilitation to her factory in Dar Es Salaam. Cigarette output has more than doubled and is also exploring export markets.

- Cement companies (Twiga, Tanga and Mbeya factories) have more than doubled their out put from an annual combined total of 600,000 tons to 1.6 million tons and have ventured to export markets in central and southern Africa.

- In the tourist sector some of the hotels (New Africa and Kilimanjaro) have been expanded and modernized to four and five star status.

8.6: Aspects for further studies

The findings in this study have only made a partial evaluation of the privatization process in Tanzania, since not all aspects were covered. In order for one to draw a firm conclusion, more such studies should be extended to the other aspects not covered by this study. Such other aspects include social consequences of privatization, economic performance of privatized enterprises, fiscal impact of privatization on government budget; alternative benchmarks to asset value; failed privatizations – the causes and lessons. Etc.

[52] Tanzania telecommunication company limited (TTCL), Air Tanzania corporation (ATC). Etc.
[53] The Guardian, January 23, 2008.

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APPENDICES

Appendix 1: Privatization Strategies (chapter 3 input)

Name of Privatized Enterprise.	*Val. Date*	*Strategy Type*	*Location of Enterprise*	*Type of Business*
New Africa Hotel Ltd.	1992	Share sale 65%	Dar	Hotel
Tanzania Shoes Company Ltd.	1995	Asset sale	Dar	Factory
Friendship Textile Mills Ltd.	1998	Share sale 60%	Dar	Factory
Tanzania Breweries Ltd.	1993	Share sale 60%	Dar	Factory
Tanzania Portland Cement Co. Ltd.	1997	Share sale 60%	Dar	Factory
NBC [1997] LTD.	1999	Share sale 70%	Dar	Commercial
NEDCO LTD	1997	MEBO	Dar	Commercial
Kunduchi Beach Hotel Ltd.	1997	Share sale 65%	Dar	Hotel
Ubungo Garments Ltd.	1996	Asset sale	Dar	Factory
Tanzania Cigarette Co. Ltd.	1995	Share sale 51%	Dar	Factory
New Savoy Hotel Ltd	1995	Asset sale	Morogoro	Hotel
Ubena Estates Ltd.	1997	Asset sale	Coast	Agri/process
MOPROCO LTD.	1995	Asset sale	Morogoro	Factory
Morogoro canvas	1998	Asset sale	Morogoro	Factory
Tanzania Cables Ltd.	1995	Share sale 50%	Dar	Factory
Mtibwa sugar	1996	Share sale 95%	Morogoro	Agri/process
Kisarawe bricks	1995	Share sale 75%	Kibaha	Factory
HANDICO	1996	MEBO	Dar	Factory
Express Tanzania Ltd.	1996	MEBO	Dar	Commercial
NMC Godowns& Mills	1996	Asset sale	Dar	Factory
Mbeya Ceramics Ltd.	1995	Asset sale	Dar	Factory
Aluminium Africa Ltd.	1997	Share sale 55%	Dar	Factory

Tanga Cement Co. Ltd.	1996	Share sale 60%	Tanga	Factory
Tanga RTC Assets.	1996	Asset sale	Tanga	Commercial
TDL-Tanga Factory	1997	Asset sale	Tanga	Factory
Kange / Mgwisa Estate- TSA.	1997	Receiver	Tanga	Agri/process
Muheza Estate – TSA	1997	Asset sale	Tanga	Agri/process
Sikh Saw Mill (T) Ltd.	1997	Share sale 70%	Tanga	Factory
Kumburu Estate -TSA.	1997	Asset sale	Tanga	Agri/process
Moshi Hotels Ltd.	1995	Asset sale	Moshi	Hotel
New Safari Hotel Ltd.	1997	Share sale 60%	Arusha	Hotel
TANELEC	1995	Share sale 70%	Arusha	Factory
Arusha RTC Assets	1996	Asset sale	Arusha	Commercial
State Travel Workshop	1996	Asset sale	Arusha	Factory
FibreBoard Africa Ltd.	1997	Share sale 60%	Arusha	Factory
TDL-Arusha	1995	Asset sale	Arusha	Factory
New Mwanza Hotel Ltd.	1996	Share sale 60%	Mwanza	Hotel
Mwanza RTC Houses	1996	Asset sale	Mwanza	commercial
Mara RTC	1996	Asset sale	Musoma	Commercial
Tanzania tobacco	1997	Asset sale	Morogoro	Factory
Pasiansi boatyard	1999	Asset sale	Mwanza	Factory
TDL- Musoma Factory.	1997	Receiver	Musoma	Factory
Tanesco woodpole plant	1997	Asset sale	Mbeya	Factory
Iringa RTC	1997	Asset sale	Iringa	commercial
Keko pharmace’	1995	Share sale 60%	Dar	Factory
Nyanza Engineering	1999	Asset sale	Mwanza	Factory

Appendix 2: VALUATION METHODS (chapter 4 inputs)

Name of Privatized Enterprise.	*Val. Date*	*Valuation Tshs/US$*	*Location of Enterprise*	*Type of Business*
New Africa Hotel Ltd.	1992	2.30*	Dar	Hotel
Tanzania Shoes co.	1995	2,500.00	Dar	Factory
Friendship Textile	1998	21,800.00	Dar	Factory
Tanzania Breweries	1993	40.00*	Dar	Factory
Tanzania Port/Cement	1997	15.20*	Dar	Factory
NBC [1997] LTD.	2000	$26.87*	Dar	Commercial
NEDCO	1997	91.00	Dar	Commercial
Kunduchi Beach Hotel	1997	1.8*	Dar	Hotel
Ubungo Garments	1996	250.00	Dar	Factory
Tanzania Cigarette	1995	115.00*	Dar	Factory
New Savoy Hotel Ltd	1995	160.0	Morogoro	Hotel
Ubena Estates Ltd.	1997	355.00	Coast	Agri/process
MOPROCO LTD.	1995	1,622.00	Morogoro	Factory
Morogoro Canvas	1998	2,250.00	Morogoro	Factory
Tanzania Cables Ltd.	1995	1.07*	Dar	Factory
Mtibwa sugar	1999	14.44	Morogoro	Agri/process
Kisarawe bricks	1994	1,340.00	Kibaha	Factory
HANDICO	1996	49.00	Dar	Factory
Express Tanzania	1996	43.50	Dar	Commercial
NMC Mills	1996	14,422.00	Dar	Factory
Mbeya Ceramics	1995	300.00	Dar	Factory
Aluminium Africa Ltd.	1997	$6.80*	Dar	Factory
Tanga Cement	1996	24.00*.	Tanga	Factory
Tanga RTC Assets.	1996	419.00	Tanga	Commercial
TDL-Tanga Factory	1997	336.00	Tanga	Factory
Kange / mgwisa/Tsa	1997	125.00	Tanga	Agri/process
Muheza Estate/TSA	1997	378.00	Tanga	Agri/process
Sikh Saw Mill (T)	1997	412.00	Tanga	Factory
Kumburu Estate/TSA	1997	150.00	Tanga	Agri/process
Moshi Hotels Ltd.	1995	663.00	Moshi	Hotel
New Safari Hotel	1997	580.00	Arusha	Hotel
TANELEC	1995	2.00*	Arusha	Factory
Arusha RTC Assets	1996	195.00	Arusha	Commercial
State Travel Workshop	1996	0.33*	Arusha	Factory
FibreBoard Africa	1997	1,000.00	Arusha	Factory
TDL-Arsha	1998	640.00	Arusha	Factory
New Mw'nza Hotel	1996	595.00	Mwanza	Hotel
Mwanza RTC/houses	1996	500.00	Mwanza	Commercial
Mara RTC buildings	1996	113.00	Musoma	Commercial
Tanzania tobacco	1997	18.5*	Morogoro	Factory
Pasiansi boat yard	1997	283	Mwanza	Factory
TDL-Musoma	1997	200.00	Musoma	Factory
Tanesco woodpole	1997	*1.00	Mbeya	Factory

Iringa RTC head office	1997	120.00	Iringa	Commercial
Keko pharm/Plant	1995	*1.5	Dar	Factory
Nyanza Engineering	1996	37.00	Mwanza	Factory

Notes to appendix 2:
(1)*US$ 1= Tshs 1000 [December 2002].
(2) Foreign buyers paid privatization price in US$ & are marked with *.

Appendix 3a: VALUATION ERROR (Chapter 5 input)

Name of Privatized Enterprise	*Sale Date*	*Valuation Tshs. (000,000)*	*Price Tshs (000,000)*	*Share Factor (1/x)*	*Adjusted Price-Tshs. (000,000)*	*Error (%)*	*Buyer's Name/ Privatization Type*
New Africa Hotel Ltd.	1992	2.30*	1.00*	1.54	1.54*	97.0	Tadema overseas ltd.-**Share:65%**
Tanzania Shoes co.	1995	2,500.00	700.000	1.0	700,000	257.1	NAS Hauliers-**Asset Sale.**
Friendship Textile	1998	21,800.00	7,000.00	1.96	13,720.00	58.9	Taijin textile ltd-Share:51%
Tanzania Breweries	1993	40.00*	22.50*	1.67	37.58*	**6.5**	INDOL-**Share:60%**
Tanzania Port/Cement	1997	15.20*	8.45*	1.67	14.11*	**7.7**	Sca'&Swedfund-**Share:60%**
NBC [1997] LTD.	2000	$26.87*	$15.0*	1.43	21.45*	25.3	ASAB LTD-**Share:70%**
NEDCO	1997	91.00	83.60	1.0	83.60	**8.8**	New NEDCO_ **MEBO.**
Kunduchi Beach Hotel	1997	1.8*	1.10 *	1.54	1.69*	**6.5**	A.C.Gomes ltd.-**Share:65%**
Ubungo Garments	1996	250.00	150.00	1.0	150.00	66.7	V.B.investment-**Asset sale.**
Tanzania Cigarette	1995	115.00*	55.00*	1.96	107.8*	**6.7**	R.J.Reynolds-**Share:51%**
New Savoy Hotel Ltd	1995	160.0	105.00	1.0	105.00	52.4	Mt Ulguru hotels Ltd.-**Asset sale.**
Ubena Estates Ltd.	1997	355.00	268.00	1.0	268.00	32.7	Southern estate -**Asset sale.**
MOPROCO LTD.	1995	1,622.00	973.00	1.0	973.00	66.7	Aboud soup ltd-**Asset sale**
Morogoro Canvas	1998	2,250.00	1,874.00	1.0	1,874.00	20.0	Abood soap -**Asset sale.**
Tanzania Cables Ltd.	1995	1.07*	0.594*	1.67	0.992*	**7.9**	Dae sung cable-**Share:60%**
Mtibwa sugar	1999	14.44	$10.33*	1.05	10.84	33.3	Tanzania sugar Share: 95%
Kisarawe bricks	1994	1,340.00	719.00	1.33	958.00	40.0	Universal electro' **Shares: 75%**
HANDICO	1996	49.00	45.00	1.0	45.00	**8.9**	Handiccraft Co. ltd-**MEBO**
Express Tanzania	1996	43.50	40.00	1.0	40.00	**8.8**	Oceans&lands -**MEBO.**
NMC Mills	1996	14,422.00	11,241.00	1.0	11,241.00	28.3	Various-**Asset sale.**

Mbeya Ceramics	1995	300.00	200.00	1.0	200.00	50.0	Kyela foods - **Asset sale.**
Aluminium Africa Ltd.	1997	$6.80*	$3.06*	1.82	$5.57*	22.1	Clovis co ltd- **Share:55%.**
Tanga Cement	1996	24.00*.	13.53*	1.67	22.60*	**6.2**	Holderbank- Share:60%
Tanga RTC Assets.	1996	419.00	319.00	1.0	319.00	31.5	**Various- Asset sale**
TDL-Tanga Factory	1997	336.00	211.00	1.0	211.00	59.4	Morning Dairy Ltd-**Asset sale**
Kange / mgwisa/Tsa	1997	125.00	87.00	1.0	87.00	44.0	Mombsa Packers- **Receivership**
Muheza Estate/TSA	1997	378.00	279.00	1.0	279.00	35.5	Meghji Estate Ltd**.-Asset sale**
Sikh Saw Mill (T)	1997	412.00	270.00	1.43	386.00	**6.9**	Masco Mills - **Share:70%**
Kumburu Estate/TSA	1997	150.00	108.00	1.0	108.00	40.0	Silver Distributors- **Asset sale**
Moshi Hotels Ltd.	1995	663.00	575.00	1.0	575.00	15.4	Kibo hotels- Asset sale
New Safari Hotel Ltd.	1997	580.00	323.00	1.67	539.00	**8.0**	Lutheran Church- Share:60%
TANELEC	1995	2.00*	1.30*	1.43	1.86*	**7.5**	A'Brow'Boveri -**Share:70%**
Arusha RTC Assets	1996	195.00	235.00	1.0	235.00	(16.7)	Various- **Asset sale**
State Travel Workshop	1996	0.33*	0.275*	1.0	0.275*	20.0	Multiflower - **Asset sale**
FibreBoard Africa Ltd.	1997	1,000.00	560.00	1.67	935.00	**6.9**	HansNails- **Share:60%**
TDL-Arsha	1998	640.00	440.00	1.0	440.0	45.5	Northern cream' **Asset sale**
New Mw'nza Hotel Ltd.	1996	595.00	330.00	1.67	550.00	**7.8**	Grand Hotels Ltd-**Share:60%**
Mwanza RTC/houses	1996	500.00	430.00	1.0	430.00	16.3	Various- **Asset sale**
Mara RTC buildings	1996	113.00	98.00	1.0	98.00	15.2	Various- Asset sale
Tanzania tobacco	1997	18.5*	*16.38	1.0	16.38*	12.9	Univesal leaf' Inc. **Asset sale**
Pasiansi boat yard	1997	283	326.00	1.0	326.00	(13.0)	Commonwealth Ltd.-**Asset sale**
TDL- Musoma	1997	200.00	108.50	1.0	108.50	84.3	Fishpack Ltd.- Receivership

Tanesco woodpole	1997	*1.00	*0.85	1.0	*0.85	17.6	Merhab Trans Ltd **-Asset sale.**
Iringa RTC head office	1997	120.00	80.0	1.0	80.00	50.0	Majmbe Auction **Asset sale**
Keko pharm/Plant	1995	*1.5	*0.75	1.67	*1.25	20.0	Diocare Ltd **Share : 60%**
Nyanza Engineering	1996	37.00	40.00	1.0	40.00	(7.4)	Nyanza engineer' **Asset sale**

Notes to appendix 3: (1)*USD 1= Tshs 800 [December 2000]. (2) Foreign buyers paid privatization price in USD & are marked with *. (3) Share factor is a reciprocal of type of privatization strategy (5^{th} column)-E.g., in New Africa hotel 65% share were bought = USD 1.0mil., but what is the worth of its 100% shares? Asset sale, MEBO, and Receivership are each assigned share factor of 1.0 because their sale price = 100% shares.
(4) Adjusted price = Sale price x Share factor. (5) Error in bolds denotes single digit valuation Error only.
(6) Valuation Error = $\frac{\text{Valuation estimate–Adjusted price}}{\text{Adjusted price}}$ x 100%.

Appendix 3b: VALUATION ERROR (Chapter 5 input)

Name of Privatized enterprise.	*Val. Date*	*Location of enterprise*	*Type of Business*
New Africa Hotel Ltd.	1992	Dar	Hotel
Tanzania Shoes co.	1995	Dar	Factory
Friendship Textile	1998	Dar	Factory
Tanzania Breweries	1993	Dar	Factory
Tanzania Portland Cement	1997	Dar	Factory
NBC [1997] LTD.	2000	Dar	Commercial
NEDCO	1997	Dar	Commercial
Kunduchi Beach Hotel	1997	Dar	Hotel
Ubungo Garments	1996	Dar	Factory
Tanzania Cigarette	1995	Dar	Factory
New Savoy Hotel Ltd	1995	Morogoro	Hotel
Ubena Estates Ltd.	1997	Coast	Agri/process
MOPROCO LTD.	1995	Morogoro	Factory
Morogoro Canvas	1998	Morogoro	Factory

Tanzania Cables Ltd.	1995	Dar	Factory
Mtibwa sugar	1999	Morogoro	Agri/proces
Kisarawe bricks	1994	Kibaha	Factory
HANDICO	1996	Dar	Factory
Express Tanzania	1996	Dar	Commercial
NMC Mills	1996	Dar	Factory
Mbeya Ceramics	1995	Dar	Factory
Aluminium Africa Ltd.	1997	Dar	Factory
Tanga Cement	1996	Tanga	Factory
Tanga RTC	1996	Tanga	Commercial
TDL-Tanga Factory	1997	Tanga	Factory
Kange mgwisa/Tsa	1997	Tanga	Agri/proces
Muheza Estate/TSA	1997	Tanga	Agri/proces
Sikh Saw Mill (T) Ltd.	1997	Tanga	Factory
Kumburu Estate/TSA	1997	Tanga	Agri/process
Moshi Hotels Ltd.	1995	Moshi	Hotel
New Safari Hotel Ltd.	1997	Arusha	Hotel
TANELEC	1995	Arusha	Factory
Arusha RTC Assets	1996	Arusha	Commercial
State Travel Workshop	1996	Arusha	Factory
FibreBoard Africa Ltd.	1997	Arusha	Factory
TDL-Arsha	1998	Arusha	Factory
New Mw'nza Hotel Ltd.	1996	Mwanza	Hotel
Mwanza RTC	1996	Mwanza	Commercial
Mara RTC	1996	Musoma	Commercial
Tanzania tobacco	1997	Morogoro	Factory
Pasiansi boat yard	1997	Mwanza	Factory
TDL-Musoma	1997	Musoma	Factory
Tanesco woodpole	1997	Mbeya	Factory
Iringa RTC head office	1997	Iringa	Commercial
Keko pharm/Plant	1995	Dar	Factory
Nyanza Engineering	1996	Mwanza	Factory

Appendix 4: **BUYERS (Chapter 6 input)**

Name of SOE	*Sale Date*	*Price Tshs (milln)*	*Price USD (milln)*	*Location*	*Type of Business*	*Buyer Origin*	*Buyers/ strategy Type*
New Africa Hotel Ltd.	1992		$1.00*	Dar	Hotel	Foreign	Tadema **Share:65%**
Tanzania Shoes Company Ltd.	1995	700		Dar	Factory	Local	NAS Hauliers- **Asset Sale.**
Friendship Textile Mills Ltd.	1998		$7.00*	Dar	Factory	Foreign	Taijin textile Share:51%
Tanzania Breweries Ltd.	1993		$22.5*	Dar	Factory	Foreign	INDOL- **Share:60%**
Tanzania Portland Cement Co. Ltd.	1997		$8.45*	Dar	Factory	Foreign	Sca'&Swed' **Share:60%**
NBC [1997] LTD.	2000		$15.0*	Dar	Commer cial	Foreign	ASAB LTD- **Share:70%**
NEDCO LTD	1997	83		Dar	Commer c	Local	**MEBO.**
Kunduchi Beach Hotel Ltd.	1997	1,100		Dar	Hotel	Local	A.C.Gomesltd **Share:65%**
Ubungo Garments Ltd.	1996	150		Dar	Factory	Local	V.B.investmnt **Asset sale.**
Tanzania Cigarette Co. Ltd.	1995		$55.0*	Dar	Factory	Foreign	R.J.Reynolds- **Share:51%**
New Savoy Hotel Ltd	1995	105		Moro	Hotel	Local	Mt Ulguru **Asset sale.**
Ubena Estates Ltd.	1998	268		Coast	Agri/ process	Local	Southern estate -**Asset sale.**
MOPROCO LTD.	1995	973		Moro	Factory	Local	Aboud soap **Asset sale**
Morogoro canvas	1998	1,874		Moro	Factory	Local	Abood soap -**Asset sale.**
Tanzania Cables	1996		$0.594 *	Dar	Factory	Foreign	Dae sung cable- **Share:60%**
Mtibwa sugar	1999		$10.33 *	Moro	Agri/ process	Foreign	Tanzania sugsr **Share**: 95%
Kisarawe bricks	1994	719		Coast	Factory	Local	Universalelect **Share:** 70%
HANDICO	1996	45		Dar	Factory	Local	**MEBO**
Express Tanzania	1996	40		Dar	Commer cial	Local	Oceans&lands **MEBO.**
NMC Godowns&Mills	1996	11,309		Dar	Factory	Local	Various- **Asset sale.**

Mbeya Ceramics	1995	200		Dar	Factory	Local	Kyela foods - **Asset sale.**
Aluminium Africa Ltd.	1997		$3.06*	Dar	Factory	Foreign	Clovis co ltd-**Share:55%.**
Tanga Cement	1996		$13.53 *	Tanga	Factory	Foreign	Holderbank-**Share:60%**
Tanga RTC	1996	319		Tanga	Commer c	Local	**Asset sale**
TDL-Tanga Factory	1997	211		Tanga	Factory	Local	Morning Dairy Ltd-**Asset sale**
Kange / Mgwisa Estate- TSA.	1997	87		Tanga	Agr process	Local	Mombsa' **Receivership**
Muheza Estate – TSA	1997	279		Tanga	Agri/ process	Local	Meghji Estate Ltd**.-Asset sale**
Sikh Saw Mill (T) Ltd.	1997	270		Tanga	Factory	Local	Masco Mills - **Share:70%**
Kumburu Estate -TSA.	1997	108		Tanga	Agri/ process	Local	SilverDistributors**Asset sale**
Moshi Hotels Ltd.	1995	578		Moshi	Hotel	Local	Kibo hotels-Asset sale
New Safari Hotel Ltd.	1997	323		Arush a	Hotel	Local	Lutheran Share:60%
TANELEC	1995		$1.3*	Arush a	Factory	Foreign	A'Brow'Bove -**Share:70%**
Arusha RTC.	1996	235		Arush	Commer c	Local	**Asset sale**
State Travel Workshop	1996		$0.275 *	Arush a	Factory	Foreign	Multiflower - **Asset sale**
FibreBoard Africa Ltd.	1997	560		Arush a	Factory	Local	HansNails-**Share:60%**
TDL-Arusha	1998	440		Arush a	Factory	Local	North-creamm' **Asset sale**
New Mwanza Hotel Ltd.	1996	330		Mwan za	Hotel	Local	Grand Hotels **Share:60%**
Mwanza RTC.	1996	430		Mwan	Commer c	Local	**Asset sale**
Mara RTC	1996	98		Muso'	Commer c	Local	***Asset sale***
Tanzania tobacco processing	1997		$16.38 *	Moro	Factory	Foreign	Univesal leaf' **Asset sale**
Pasiansi boatyard	1997	326		Mwan za	Factory	Local	Songoro' Mari' Ltd.-**Asset sale**
TDL-Musoma	1997	88		Muso ma	Factory	Local	Fishpack Ltd.-Receivership

Tanesco woodpole	1997	850		Mbeya	Factory	Local	Merhab Trans -**Asset sale.**
Iringa RTC	1997	80		Iringa	Commercial	Local	Majembe **Asset sale**
Keko pharmace'	1995		$0.75*	Dar	Factory	Foreign	Diocare Ltd **Share : 60%**
Nyanza Egineer'	1996	40		Mwanza	Factory	Local	Nyanza Eng' **Asset sale**
Morogoro leather	1999	135		Moro	Factory	Local	Abood Soap **Asset Sale**
Rungwe tea fact'	1999		$1.150*	Mbeya	Agri/ process	Foreign	Commonwealth **Asset Sale**
Korogwe tea fact'	1999	750		Tanga	Agri/ process	Local	Farmers'Cop **Asset Sale**
KAUMU/Mtwara	1999	101		Mtwara	Commercial	Local	KAUMU **Asset Sale**
MORETCO/Moro	1999	140		Moro	Commercial	Local	Moro Roadway **Asset Sale**
Dabaga tea fact'	1999	515		Iringa	Agri/ process	Local	Kiganga tea **Asset Sale**
Furaha Visiwani	2000	80.00		Zanzibar	Factory	Local	C/o Rev. govt' **Shares: 49%**
TPC Sugar/Moshi	2000		$7.19*	Moshi	Agri/ process	Forign	Sukari Invest' **Shares: 75%**
Mufindi Tea co.	2000	190.00		Iringa	Agri/ process	Local	Africa plant' **Shares: 75%**
MECCO Ltd.	2000	287.00		Dar	Commerce	Local	Sisi Constru' **Shares: 75%**
KAURU/Ruvua	2000	99.00		Songea	Commerce	Local	New Kauru Ltd **Shares: 100%**
RETCO Mbeya	2000	120.00		Mbeya	Commerce	Local	Kumbe co. Ltd. **Shares: 100%**
Tembo Resort	2000	42.00		Mbeya	Hotel	Local	Project equip' **Asset Sale**
KAUDO/Dodoma	2000	55.00		Dodoma	Commercial	Local	Capital Trans **Asset Sale**
Maruku tea fact'	2000	266.00		Bukoba	Agri/ process	Local	Amir Hamza **Shares:100%**
Tanzania Oxygen	2000		$2.60*	Dar	Factory	Foreign	BritishOxygen **Shares: 60%**
TTCL	2000		$120.00*	Dar	Telecom	Foreign	Detecon&MSI **Shares: 35%**
Bahari beach	2000		$1.064*	Dar	Hotel	Foreign	Feram holding **Asset Sale**

Tabora Textile	1999		$2.5*	Tabor	Factory	Local	Dunia World **Asset Sale**
Mbeya Cement	1998		$10.84 *	Mbey a	Factory	Foreign	Commonwealt h **Shares: 75%**
Mkata Saw Mills	1995	70.00		Tanga	Factory	Local	Anisa Ltd Shares:
Blanket Manuf'	1995	198.00		Dar	Factory	Local	JKT Invest. Shares:
Kilombero sugar	1997		$22.00 *	Moro	Agri/ process	Foreign	Illovo **Share: 75%**
Kibo Paper Ind'	1997	450.00		Dar	Factory	Local	IPS Ltd Asset Sale
Bima Motors Ltd	1997		$1.40*	Dar	Factory	Foreign	SAS Eng. Ltd Asset sale
Polysacks Ltd	1997	100.00		Dar	Factory	Local	Purebond Ltd Share Sale
Ubungo Spinning	1997		$2.40*	Dar	Factory	Foreign	Raffia Bags Share:
Mufindi pyretrum	1997		$1.00*	Iringa	Factory	Foreign	Intern. Share:
National bicycle'	1997		$1.95*	Dar	Factory	Foreign	Avon cycles Shares:
Tanganyika Tegry	1997	500.00		Dar	Factory	Local	Seedcap Ltd Shares:
NAPOCO	1995	388.00		Dar	Factory	Local	Singu Farm Asset Sale
Imara Wood	1995	90.00		Moshi	Factory	Local	Tanscan Ltd Share:
Williamson diamonds	1994		$0.18*	Shiny a'	Factory	Foreign	Wilcroft Ltd Shares:
Gomba Sisal	1997	100.00		Tanga	Agri/ process	Local	Interconsult Asset Sale

Notes to appendix 4:
*USD 1= Tshs 1000 [December 2002].

Appendix 5: AFTER PRIVATIZATION (chapter 7 input)

Name of Privatized Firm.	*Sale Date*	*Investment Pledges Tshs / $ (000,000)*	*Location of Firm*	*Owner change*	*Develop' changes*	*Type of business*
New Africa Hotel Ltd.	1992	$2.0	Dar	lease	major	Hotel
Tanzania Shoes Company Ltd.	1995	376.0	Dar	lease	light	Factory
Friendship Textile	1998	$8.0	Dar	lease	light	Factory
Tanzania Breweries Ltd.	1993	$19.0	Dar	sell/ lease	major	Factory
Tanzania Portland Cement	1997	$16.7	Dar	lease	light	Factory
NBC [1997] LTD.	2000	$15.0	Dar	lease	light	Commerce
Mkata saw mills	1995	260.0	Arusha	whole	light	Factory
Kunduchi Beach Hotel Ltd.	1997	$5.0	Dar	whole	light	Hotel
Ubungo Garments Ltd.	1996	$1.0	Dar	whole	light	Factory
Tanzania Cigarette	1995	$32.0	Dar	whole	major	Factory
New Savoy Hotel Ltd	1995	48.0	Dar	whole	light	Hotel
MOPROCO LTD.	1995	1,500.0	Dar	whole	major/ replace	Factory
Morogoro canvas	1998	2,000.0	Dar	whole	light	Factory
Express Tanzania Ltd.	1996	30.0	Dar	whole	light	Commerce
Aluminium Africa Ltd.	1997	$26.0	Dar	whole	light	Factory
Tanga Cement Co. Ltd.	1996	$22.0	Arusha	sell	light	Factory
TDL-Tanga	1997	217	Arusha	whole	light	Factory
Sikh Saw mills	1997	600.0	Arusha	whole	light	Factory
Kumburu Estate	1997	$3.4	Arusha	lease	light	Agri/proc'
Moshi Hotels	1995	864.0	Arusha	lease	light	Hotel
New Safari Hotel	1997	224.0	Arusha	lease	light	Hotel
TANELEC	1995	$7.1	Arusha	whole	major	Factory
Blanket manufact'	1995	4.0	Dar	whole	light	Factory

State Travel	1996	733.0	Arusha	whole	light	Commerce
FibreBoard	1997	2,100.0	Arusha	whole	light	Factory
Mwanza Hotel	1996	$0.5	Mwanza	lease	light	Hotel
Ubena sisal estates	1997	400.0	Dar	whole	light	*Agri-process*
Tanzania tobacco	1997	$8.2	Dar	sell	major	Factory
TDL-Dar	1997	1,943.0	Dar	whole	light	Factory
TDL- Musoma	1997	$1.8	Mwanza	whole	major	Factory
Tanesco woodpole	1997	$1.3	Mbeya	whole	light	Factory
Keko pharmaceutical	1995	$2.4	Dar	whole	light	Factory
Mbeya Cement	1998	$18.0	Mbeya	lease	light	Factory
Kisarawe brick	1994	1,260.0	Dar	whole	major	Factory
Kibo Paper Ind.	1997	970.0	Dar	whole	light	Factory
Polysacks Ltd	1997	200.0	Dar	whole	light	Factory
Ubungo Spinning	1997	$8.0	Dar	whole	major	Factory
National bicycle	1997	$3.0	Dar	lease	light	Factory
Tanganyika Tegry	1997	2,424.0	Dar	lease	light	Factory
NAPOCO	1995	276.0	Dar	lease	light	Factory
Imara Wood	!995	165.0	Arusha	whole	light	Factory
Williamson Diamonds	1994	$4.5	Mwanza	lease	major	Factory

Notes to appendix 5:

(1)*USD 1= Tshs 1000 [December 2002].

(2) All Foreign buyers made investment pledges in USD & are marked with *.