



Policy Brief

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The Role of State-Owned Enterprises in Industrialization in Tanzania: Lessons from East Asian Economies

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Abstract

- Inspired by the success of countries in East Asia, the Government of Tanzania is aggressively pursuing industrialization as a strategy to accelerate socio-economic development, create jobs and substantially reduce poverty. Notably, many economies in that region achieved a high level of industrialization and economic transformation through the participation of a large State-Owned Enterprises (SOEs) sector. This leads to the question: What role can SOEs play to support industrialization in Tanzania?

To stimulate and exchange views on this critical issue, UONGOZI Institute in collaboration with the Office of the Treasury Registrar within the Ministry of Finance and Planning convened a roundtable policy forum in July, 2018. In particular, delegates advised that, for SOEs to contribute meaningfully to industrialization in Tanzania, their role within the country's current development context needs to be re- thought and necessary reforms implemented. The latter includes formulating policy guidelines to address the prevailing governance and operational challenges affecting SOEs performance.

Introduction

To realize its vision of becoming a middle-income country by 2025, the Tanzanian government through its Five Year Development Plan II (2016/17-2020/21) has prioritized industrialization as the key driver of economic transformation. However, despite the priority attached to industrialization, the structure of the economy shows a manufacturing deficit. For instance, to date, the manufacturing sector has played a much smaller role in driving growth and job creation, contributing less than 10 percent of GDP and employing around three percent of the labour force.

In many countries, particularly in East Asia, state-owned enterprises have been critical stakeholders responsible for translating national industrialization agendas into tangible results. UONGOZI Institute, in collaboration with the Office of the Treasury Registrar in the Ministry of Finance and Planning organized a roundtable policy forum to discuss the role of SOEs in Tanzania. The dialogue examined how SOEs have facilitated the industrialization

agenda in other countries, and how SOEs can take advantage of opportunities and meet the challenges emerging during the process industrialization. The roundtable was held on 10 July, 2018. The Minister for Finance and Planning, Hon. Dr. Philip Mpango (MP) officiated the forum. The Keynote Address was delivered by Dr. John Page, Senior Fellow in the Global Economy and Development Program at the Brookings Institution in Washington, D.C. This brief summarizes the key messages and policy recommendations from the forum.

Key Messages

In the past, SOEs were seen as barriers to growth; today, SOEs are being considered as levers for development

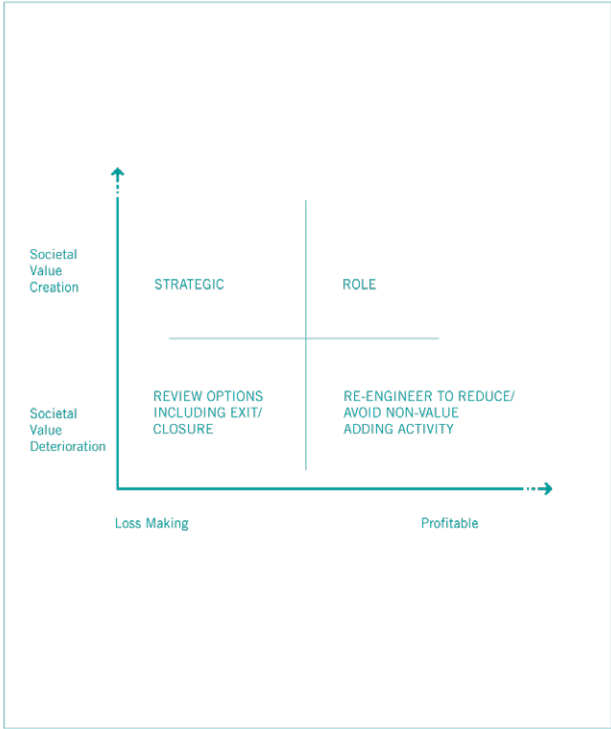
Growth in SOEs is a global phenomenon, but countries differ on the extent they have harnessed the sector to support economic transformation. A recent study (PwC, 2015) shows that the proportion of SOEs among Fortune Global 500 corporations has grown from nine percent in 2005 to twenty- three percent in 2014, including a greater presence in the top rankings, largely driven by China. However, the role of SOEs varies significantly between countries. For instance, the contribution of SOEs to GDP ranges from two percent in Indonesia to over thirty-three percent in Vietnam.

Many East Asian economies achieved success with a large SOE sector. SOEs were key drivers of economic development in East Asia. The strategies of individual countries in leveraging SOEs varied considerably but some elements were common across all countries. These included:

Gradualism

A pragmatic approach to economic reform was adopted, that included moving gradually from state-based to market-based economies. Importantly, countries put in place frameworks to guide decision-making for divestiture and investment in SOEs that balanced the societal value of investments with their commercial profitability (Figure 1).

Figure 1: Strategic Positioning of SOEs



Clearly, the Figure shows two motivations for guiding Governments in making strategic policy reforms on the role of SOEs in the economy: making social value or profit, or both. On one hand, a SOE could be loss making but the State keeps it if its social value is notably high (i.e. strategic investments). The Government is advised to reform/re-engineer SOEs that are highly profitable but with very low social value. On the other hand, the Government should exit or abandon SOEs that are loss making with low social value; and embrace or promote those of high profit with significant social value as role models.

“Back the Winners” Approach

The State support was focused on strategic sectors and enterprises that contributed to transforming the economy. Where necessary, hard reforms were adopted, which allowed divestiture to Foreign Direct Investment (FDI) of poorly performing SOEs, with the government taking majority or minority shares.

Alignment and Partnership with the Private Sector

The private sector was viewed as a critical partner in formulating and implementing national industrialization strategies. Underlying this collaboration, was the strong need for public-private sector dialogue to ensure that activities of the two sectors were coherent not contradictory. In Singapore, SOEs and FDI were combined as Government-Linked Corporations. In effect, the government used to run Singapore as a business entity.

Robust Performance Monitoring and Evaluation

Results-based management (RBM) coupled with good corporate governance were adopted to ensure the accountability of SOEs.

Dynamism

The roles and tactics of SOEs evolved over time as economies developed. In most cases, this evolution meant devolving some activities to be run commercially by the private sector after achieving a significant level of competitiveness.



In Tanzania, SOEs play an important role but are not dominant in the economy

Currently, around 270 fully registered SOEs are operating in Tanzania, managed under the Office of the Treasury Registrar. They are clustered around major sectors of the economy, including power, transportation, water, information and communications technology, land and housing, and financing. Of these entities, the Government has full ownership of 232 enterprises.

In total, the investment in SOEs represents about ten percent of GDP.

In value terms, about sixty of Government investment is held in ten corporations, of which four are service providers: *Reli Asset Holding Company (RAHCO) (now transformed to Tanzania Railway Corporation), Tanzania Electric Supply Company (TANESCO), Tanzania Ports Authority (TPA) and the National Housing Corporation (NHC).*

Several important corporations, such as the Tanzania Petroleum Development Corporation (TPDC) and Air Tanzania are not in the top ten.

A number of challenges limit the role of SOEs in industrialization in Tanzania

Forum participants identified the following challenges that negatively impact SOEs in Tanzania:

Financial Viability

SOEs have been under-capitalized for a long time.

Governance

Some SOEs do not have Boards of Directors, which limits their decision-making powers. Also, decision-making processes in most SOEs are too bureaucratic, limiting the extent to which SOEs can become competitive and responsive.

Independence

Participants remarked strongly on the lack of autonomy in running SOEs; in most cases, executive appointments are politically motivated rather than based on professional competencies.

Incentive Framework

Remuneration and incentive schemes for senior executives in SOEs are not competitive with the private sector, hence, it is difficult to attract highly-skilled professionals.

Strategic Direction

In that, the Government should distinguish the activities/sectors that are best run by the private sector from those that are best run by SOEs (including sectors of strategic importance).



Policy Recommendations

Participants highlighted several important lessons that Tanzania can apply from the experience of East Asian countries. To improve the sector, the Government was advised to:

- 1 Improve accountability and reporting on performance evaluation of SOEs. The management of SOEs needs to be dissociated from political interference by establishing a strong, independent institution responsible for managing the sector. Furthermore, robust performance management and reporting systems need to be instituted to improve accountability.
- 2 Clarify competition between SOEs and private sector firms. The government needs to enhance the complementarity between the private sector and SOEs, and ensure a level playing field between the two. In principle, during the process of industrialization, SOEs can compete with private operators, but it is important to develop national guidelines that distinguish the two in terms of their roles and activities.
- 3 Develop interventions to increase the productivity of SOEs. Productivity is a composite outcome of many different factors, from factors of production to societal values and attitudes. Therefore, influencing and improving productivity will require overarching interventions. Of these, agglomeration i.e. leveraging industrial clusters, was considered the most important. The Government also needs to conduct feasibility studies to confirm the financial viability of enterprises prior to further investment.
- 4 Improve implementation capacity. For SOEs to contribute meaningfully to Tanzania's industrialization and economic transformation, critical institutional requirements, which are notably missing, need to be met. Particularly, the adoption of good corporate governance and provision of adequate financial and human resources.

Conclusion

Though not as economically dominant as their counterparts in East Asia, SOEs in Tanzania have the potential to play a significant role in promoting industrialization if they can accurately translate the country's development agenda into practice. To achieve this, the Government will need to elucidate the national vision, promote national dialogue on its desired transformation strategy, and build effective support programmes for its implementation. All stakeholders must be involved. Vitally, to improve planning for the future, the Government will need to be transparent on things that did not work well in the past and why, and implement the necessary reforms to address the governance and operational challenges affecting the performance of state-owned enterprises.

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