# FINANCIAL PERFORMANCE OF PUBLIC CORPORATIONS: A CASE OF DISTRICT DEVELOPMENT CORPORATIONS (DDCs)

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## INTRODUCTION

There is widespread interest in Tanzania on the subject of public corporations. Politicians, academicians, managers and the general public have all questioned the performance of public corporations. That is under-standable. For within an unprecedentedly brief historical period, about eleven years after the Arusha Declaration in 1967, over fifty percent of the economy has been under the ownership and control of the state. Parastatals, public corporations or enterprises are used interchangeably in this study to mean, "production and commercial organisations owned by the Government or with majority Government participation, run on profit basis, and whose accounts are not integrated into the budgets." In Tanzania they have penetrated each and every sector of the economy - agriculture, manufacturing, and commerce.

The extent and scope of public corporations in Tanzania show the important place they occupy in the economic development of the country. The urgency and necessity of economic development in the Third World Countries in general, and Tanzania in particular, demand that the corporations need not only to fulfill their roles and objectives, but also to minimise costs with the aim of creating and increasing surplus. It is the purpose of this study to evaluate the performance of District Development Corporations (DDCs) in their efforts to realise the above. In an attempt to attain the purpose of the study, question-naires, interviews and survey of secondary data provide for the methodology.

Section A is devoted to a general overview of public corporations with references to other Third World Countries. Their roles, extent and scope, and the reasons behind their formation are discussed. The section also discusses the necessity of 'good' performance on the part of the corporations in relation to surplus creation owing to its important contribution towards economic develop-ment through investment. In concluding the section, the hypothesis that "Poor performance of DDCs is due to lack of adherence to sound financial policies is developed.

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Section B traces the historical background to the establishment of the DDCs. In this connection, objectives, projects undertaken and mode of financing are discussed. Section C, discusses a case study of Kilimanjaro Development Corporation (KIDECO). Its financial performance is analysed with the help of financial ratios, as a way of testing and applying the hypothesis. The second part of the section looks into the factors contributing to the poor performance of the DDCs, in general - as a way of proving the hypothesis.

The last part of the paper - Section D, concludes the study, at the same time, making some recommendations.

## A. TOWARDS A GENERAL THEORY OF PUBLIC CORPORATIONS

The developing countries, after attaining political independence, realised that economic independence was the more important and urgent requirement. To attain that end, governments resorted to the creation of public corporations in an attempt to promote self-sustaining economies. The fundamental differences between developing countries in socio-economic development, size and density of population and socio-political orientation are reflected in the range, number and scope of their public enterprises. Despite these variations, the purpose is basically the same - promoting economic development. This primacy of objective arises out of the fact that colonialism and neocolonialism have remained as the main causes of economic backwardness of the peoples of Asia, Africa and Latin America. The creation of public corporations could thus be seen in the light of trying to combat the above situation. This task is important and necessarily warrants an examination of certain basic issues relating to public corporations in the context of economic development.

### 1. The Role of Public Enterprise

In Tanzania, during the years after the Arusha Declaration in 1967, public corporations assumed a new and an extremely important role in the country's economic development effort. New in the sense of effecting socialist reconstruction, and important because of their role as engines of economic development. It's because of these roles that capital formation increase has been accounted for by the public sector. In 1965 the private sector accounted for about 60 per cent of all monetary fixed capital formation but this share had declined to 30 per cent by 1975. The ratio of public sector fixed capital formation to monetary capital formation rose from 40 per cent to 73% during the same period.[1]

A closer look at the objectives of the public enterprise system in Tanzania elucidates the above. The objectives, according to the Arusha Declaration, are as follows:

1) To achieve economic justice by controlling the principal means of production.

2) To ensure the well-being of all citizens.

3) To prevent the exploitation of one person by another or one group by another; and

4) To prevent accumulation of wealth to an extent which is inconsistent with the existence of a class-less society.

The above objectives are socialist in form and content. Socialist development, first and foremost, calls for the control of the major means of production by the state; and this in turn determines the relations of production. State control, not only leads more easily to accomplishing objectives two to four, but also widens the extent of planning; and thus central planning takes shape. In compliance with the foregoing, most investment in industry was planned in the public sector under the second Five-Year Development Plan; only 16 per cent of the total industrial investment was left to private enterprise. The plan document stated that "the role of the public sector has been extended considerably as a result of Arusha Declaration", and that "the private sector cannot be relied upon to provide the main thrust in directly productive investment", (Vol. I, p. 14). To implement the above, the Government nationalised a number of institutions, both service and "productive", acquired equity participations in others and created specialised public corporation like Tanzania Tourist Corporation (TTC), the National Agricultural and Food Corporation (NAFCO) and Tanzania Wood Industries Corporation (TWICO), prior to the new set up, all the projects falling under the mentioned corporations were being carried under the National Development Corporation (NDC). NDC was established in 1964 by Act of Parliament No. 69. It is the largest parastatal organisation - holding company - in the country with assets worth T.shs 383,791,214/- in 1976 (NDC, Twelveth Annual Report, 1976). The magnitude of these assets in terms of value, justify the importance of NDC, in particular, and public corporations, in general, in the economy of Tanzania.

So far, we have been providing an answer to the question, why public enterprises in Tanzania? We also need to know, generally, the reasons behind public corporations elsewhere. Among these, the most often given are these:

1) Governments have specific developmental priorities and objectives which need public rather than private attention. The current emphasis on rural development in Tanzania, for example, led to the formation of the Tanzania Rural Development Bank (TRDB), with the primary task of financing rural projects. Other development priorities like the promotion of import substitution, the Africanisation of labour force, the acquisition of foreign aid and cooperation, and the injection of development into certain specific fields of economic activity, necessarily calls for government control. These are common in many countries, e.g. Pakistan, India, Turkey, Uganda, Kenya and Nigeria, although all the priorities mentioned are not held equally in each country. For example, in Kenya, Uganda and Nigeria, Africanisation ranks high on the list of priorities. Whereas for the remaining countries the other priorities become more applicable.

2) The Government needs to supply the developmental initiative.[2] This ranges from providing the initiative for investment and the promotion of industrial activity to developing infrastructure for basic activities, e.g., electricity, transport, communication and agriculture and supply the required managerial capability to enterprises.

3) Governments are able to pursue policies designed to redistribute incomes, create employment and establish programs of social security through the medium of public enterprises. This applies well to Tanzania, where the First Five-Year Plan for economic and social development (1964) aimed "to see economic growth contributing to a more equitable distribution of income in Tanganyika society". The redistribution can be effected in the following ways:

a) by keeping higher salaries under check and raising wage levels. A progressive tax system and the establishment of minimum wage policies are efforts toward that end;
b) surplus labour can be carried as a disguised means of social security. This strategy tends to water down the performance of the corporation for it tends to raise costs (wages and salaries) at the expense of profit;
c) offer products at concessional prices to poor customers. Fertilizer subsidies to peasants in Tanzania reflects the applicability of this scheme.

4) Public corporations are introduced as agencies of development in an underdeveloped region. Corporations like Sudene, IRI and Konkan serve such purposes in Brazil, Italy and India for their North Eastern, Southern and Western Coast regions respectively. In Tanzania the second Five Year Plan

(1969-78) elaborates regional development through public sector investment by stressing, "that the choice of sub-optimal location for an agricultural or industrial project, in the interest of regional equality may involve a cost in terms of efficiency".

The foregoing selected reasons have shown that the governments of the developing countries, including Tanzania, have been inspired by general objectives such as the promotion of economic and social justice and the acceleration of the developmental process, and often favour public corporations as a means of achieving the stipulated goals and intentions. Countries which have adopted socialist policies or political inclination have viewed public enterprises as a principal means of achieving the transition to socialism or state capitalism, and they tended to subordinate private corporations to public enterprises in certain fields of activity in the pursuit of such national goals. It seems that public corporations have, and will continue to occupy an important and expanding position in the economies of the Third World Countries. But this important and expanding role will be meaningful only if such corporations contribute to the economic development of the national economies. Unfortunately, this often has not been the case. J.O. Udoji concretises the difference between objective and performance:

> If the rate at which these bodies are being created and financed bears any relationship to the economic growth of the countries or the success of the bodies themselves, at least some of the countries would have been near the stage for an economic take-off. The experience, however, at least in West Africa, has been in the opposite direction.... (They) have done so badly that several public inquiries have been conducted into their affairs.[3]

The contents of the above quotation, although tending to be specific to West Africa, can be generalised to encompass Tanzania and the Third World Countries in general. The purpose of this study is to attempt to provide an answer to the question, "why such performance"? by looking at one such corporation, the District Development Corporation.

## 2. Extent and Scope of Public Enterprise

In Tanzania, not only has the public sector been expanding, it has also been diversifying. According to the Second Five-Year Plan, public sector investment as a percentage of total investment rose from 30 per cent in 1964 to 70 per cent in 1973. The upward trend is reflected in the form of transfers to parastatals as well as in fixed formation. In terms of transfers they increased from shs 127 million in 1964 to 211 million in 1971 (Annual Plan for 1972/73, p. 2). An increase of 10.7 per cent was realised in parastatal fixed capital formation. The increase was from shs 515.5 million in 1973 to shs 570.8 million in 1974 (Economic Survey, 1974/75, p. 2).

Looked at from another angle, total public sector capital stock continued to rise and reached shs 2,077 million or 70.7 per cent of total national stock. In 1972, it was shs 1,809 million, an increase of 14.8 per cent (Annual Plan for 1976/77, p. 2). The expansion in the public sector, a trend which is expected to continue, widens the role of the corporations in the economic development of Tanzania. This is emphasised by the point that the expansion has penetrated a number of sectors in the economy, that is, by diversifaction. To manufacturing, processing and mining sectors, the traditional sectors dominated by parastatals have been added other sectors like agriculture, livestock, natural resources, trade and tourism, water, power, communications, and administrative. One can thus safely claim that parastatals dominate the Tanzanian economic scene.

The dominance of the public sector in Tanzania is a factor of the socialist ideology but this is far from saying that the sector does not have a big role to play in some other developing countries. Iran and Pakistan show more or less the same trend. For Pakistan, public sector investment rose from 28 per cent in 1949-1950 to 48 per cent in 1964-1965.[4] In Iran, the sector accounts for 37 per cent of investments in agriculture, 42 per cent in oil and gas and 99 per cent in water and power.[5] The trend would tend to continue, perhaps at a faster rate, given the Third World Countries intentions to distribute more evenly incomes and development efforts among the populous. Such a trend will necessarily mean an expanding role of the public sector in the economies of these countries. Although it is difficult to say which proportion of the economy should be under either public or private sector, for it depends upon concrete situations prevailing in the country in question, as well as its political and economic aspirations, it is worth saying that thorough planning should precede their establishment and/or expansion.

## 3. Surplus Generation by Public Corporations

One of the principal components of economic development, be it capitalist or socialist, is investment. But investment eventually comes out of savings. In promoting domestic savings and ensuring proper investment, public enterprises have an important role to play. They must operate in a way that will raise surpluses, which will be available for investment in the same enterprise or elsewhere in the economy. Profit is an important goal, though not the only one, of any business organisation, be it service or productive venture. For example NDC has categorically stated: that it

> is intended to function as a profit-making organisation; it's charged to do all such acts and things as may be necessary to uphold and support the credit of the corporation and to obtain and justify public confidence, and to avert or minimise any loss to the corporation (NDC, 1976, p. 1).

Surplus is a crucial component of economic development of any country. There is wrong belief by politicians and some managers of public corporations, that profit in socialist economies is evil. We recall an incident in 1974 when the manager of Mpwapwa DDC was summoned by district heads and accused of being profit minded.[6] This is a wrong belief because for extended reproduction to take place in any country, reinvestment is necessary.

The only difference between profit in capitalist and surplus in socialist economies is the form it takes in the two societies. Profit is the economic law of capitalism and the motive force behind any type of investment. It thus becomes a means for and the consequence of the exploitation of labour. Moreover, because of the antagonistic relations of production in a capitalist economy, profit is appropriated by those who own and control the means of production. Socialism entails the emancipation of the workers, and the surplus that is generated is appropriated by the state to further the welfare of the masses. The necessity and importance of profit remains, but its character differs within the two societies. The failure to recognise this fact may be one of the reasons behind the poor performance of the public sector. For the survival and growth of an enterprise, surplus creation is a necessity. Survival takes place so long as breakeven is achieved at that point where cost equals revenue; but for growth to take place, which is the desired end, revenue must surpass costs.

In an economy dominated by the public sector, as in the Tanzanian case, surplus from this sector remains the most important source of public finance after taxation, and consequently, the determinant of the rate of growth of the economy. This role is well presented in Third Five-Year Plan where parastatal operations are estimated to have generated an income, of course a great portion of this being surplus, of shs 5,707 million between 1976/77 and 1980/81.[7] Perhaps a more detailed table showing the contribution of parastatals in each sector could be more illustrative.

The estimated income will be realised only if the sectors achieve their expected performance. To a great extent, effectiveness and efficiency on their part will determine the performance results. Adverse performance will deter the development of projects, for one cannot invest out of nothing.

Table 1. Parastatal Contribution to National Income, By Sector 1976/77 - 1980/81, shs ('000)

| Sector | Estimated Income |
|---|---|
| Agriculture | 885,334 |
| Livestock | 195,779 |
| Natural Resources | 2,300 |
| Mineral | 174,500 |
| Industries | 2,049,248 |
| Trade and Tourism | 314,600 |
| Water | 23,965 |
| Works | 568,948 |
| Power | 345,262 |
| Communication & Transport | 659,688 |
| Education | 29,400 |
| Health | 39,957 |
| Administrative & Others | 494,240 |

SOURCE: Compiled by the author. The source of data is the Third Five-Year Development Plan as quoted in the Daily News, Dar es Salaam, 25 May, 1978.

Although public corporations need to operate efficiently the performance of the public sector in West Africa, which has been summarised in footnote three, which is also typical of developing countries reveals the opposite. In Tanzania for example, a number of studies have been carried out in the public sector at national level and the same picture emerged.[8] At district level, the findings were that "only 46 out of 71 District Development Corporations in the country can run without government grants for paying the salaries of their general managers and chief accountants" (Daily News, June 22, 1977). The two studies, the latter being the Prime Minister's report to the budget session of the Parliament in 1976, reflect the poor performance of some of the public corporations.

There has been a number of explanations about this poor performance as regards public corporations in developing countries. One arguement is based on the allegation that they do concentrate on infrastructural and slow-yielding sectors of activity and that they operate on low profits if not on losses as a matter of public policy. This could be true in only a few countries, and there is thus no justification on the part of the government of raising false hopes in the public that large surpluses will be generated by the sector for general investment purpose. Again, Tanzania's public sector is so diversified that the above argument does not apply.

This necessitates an investigation into the cause of the poor performance to establish whether management in general or lack of adherence to sound financial principles - financial management, in particular, is responsible for the poor performance. Another criticism has focussed on the pattern and nature of their relationship with multinational corporations, partnership and management contracts, which are exploitative leading, to the drain of corporations' surplus.[9] Although the criticism could have a sense of truth in it, it still fails to answer the question as to why most of such corporations never realise profit. How can one talk of surplus going out if it is not being created? It is true that some funds go out but they are not necessarily out of the surpluses created. Tanzania Fertiliser Company (TFC) has a tendency of paying a fixed amount of money as management fees whether or not profits are made.

If surplus is a function of cost and revenue, the proportion which these variables take depend very much upon the efficiency or inefficiency of the operations of the organisation rather than on the above relationship. But the two variables are part and parcel of, and are determined by, the internal operations within the organisation. Furthermore, the performance of the corporations, which will also affect the two variables, will depend upon how well they are planned, organised coordinated and controlled. These are functions of management. The criticism on relationship fails to note this crucial factor.

The third criticism is that of management - that bad management of the corporations has led to poor performance. A New York based expert, while closing a session of a seminar on "Value Analysis" in Dar es Salaam, declared that, "poor management was the root cause of underdevelopment in the third world countries" (Daily News, 22 February 1978). This argument is too general. Underdevelopment is not a consequent of poor management but rather of the relationship between developed and underdeveloped countries. Poor management could be seen as a root cause of inefficiency and ineffectiveness in organisations. It is one of the most frequent stated problems in the NDC's reports as well as in the DDCs.

But when analysing the role and purpose of management in an organisation, one immediate finding is that of applying management concepts and principles with the aim of achieving maximum outputs, be it material or social with minimum inputs, while at the same time satisfying the needs of the consumers. This is the essence of managing. Inputs and outputs, these two concepts have one essential element embodied in them, that is cost. Material, labour and overhead are input costs. In the processes of production the combination and organisation of the three-cost elements lead to output (product or service). The product has to reach the consumer. New cost elements arise; transport, insurance etc. In any case the purpose of managing becomes that of minimizing cost. But cost minimizing rests on the applicability of financial management principles.

These principles fall into two main categories:-

a) The first and foremost principle is cost/benefit consciousness. That is, any cost done in relation to and within an enterprise, be it service or material, striking a balance between cost incurred and benefit accruing - material or social, should be a fast and hard rule. This consciousness should percolate the enterprise when procuring funds and allocating funds. This becomes necessary because of existence of alternatives for sources and allocation of funds. In order to achieve the above, it is inevitable that funds should be administered and evaluated. The administration part calls for policy decision on working and fixed capital financing, size and proportions of its components. Such policies on accounts receivables, size and collection period; inventory, and the mode of financing fixed and current assets, short term or long term financing and at what proportions, become major policy issues.

On the other hand, evaluation, although taking place simultaneously with administration of funds, has the purpose of seeing how well or how badly risk and cost are being avoided or minimised with the intention of maximizing benefit. Financial ratio-analysis is a tool towards that end. Ratios show relationships between and among items of financial statements. They thus facilitate planning and control. Ratios are classified into four fundamental types.

(1) Liquidity ratios, which measure the firms ability to meet its maturing short term obligations.

(2) Leverage ratios, which measure the extent to which the firm has been financed by debt.

(3) Activity ratios, which measure how effectively the firm is using its resources.

(4) Profitability ratios, which measure management's overall effectiveness as shown by the return generated on sales and investment.

Financial ratios are meaningful only when they are compared to a standard so as to determine whether performance is above or below standard. Under performance calls for immediate remedy. Over performance calls for more improvement. At the same time, analysis of ratios over the past few years is necessary so as to evaluate the position of the firm, its stability, downward or upward trend and the rate of such trend.

b) The second but related to the first principle, is maintenance accounts. The purpose of accounting is to provide financial information about an economic entity. Accuracy is an important factor in recording, classifying and summarising the financial information. In turn, it will affect the accuracy in the process of analysis and interpretation of this information. The accounting system thus gives rise to financial statements: balance sheet, income statement and cash flow. They are central to planning and control; needed by and essential to both managerial decision makers and outsiders - owners, creditors, investors, the government and the public. Financial statements are prepared to inform the owners, and the public in the case of public corporations, as to how their enterprise is performing. They should, therefore, give an accurate and informative presentation of financial position of the enterprise. Therefore, the essence of clearness, conciseness and accuracy come in.

MacDonald, D.F., conducted research into the published financial statements of the NDC, NAFCO, and TTC. The findings indicated the failure of these corporations in preparing accurate and informative statements.[10] These results apply well to some DDCs which do not submit their reports in time. Also, in most cases, they are not audited. Out of the 71 DDCs, only 46 submitted their 1976/77 financial year reports to the Prime Minister's Office: 26 did not.[11] Out of the submitted reports, only 9 have been audited. A lot of misreporting can be expected in the unaudited reports!

We conclude this section by an emphasis on the necessity of applying the principles of financial management in public enterprises as a step towards improving performance. Knowledge and application of the principles are an aftermath of training in the field of management in general, and finance, in particular; and their proper allocation. We now turn to a closer examination of the DDCs to evaluate their financial performance in relation to the principles we have just discussed.

## B. Background to the Establishment and Objective of DDCs

> In 1970 (Correct date is 1969) the Government (Ministry of Regional Administration and Rural Development) directed the District/Town Councils, or local authorities, as were called, to engage in productive ventures so as to defray the amount of Central Government subvention.(12)

To implement this call, the local authorities created District Development Corporations (DDCs) as their economic wings. In the early stages of their formation, the DDCs were owned and run by either a district or a town council or the two in collaboration with a cooperative society or union. In terms of registration they fall under the Company Ordinance Chap. 212. The abolition of local authorities in 1972, an aftermath of decentralisation, these corporations came under the control of districts as stipulated in the District Corporations Act, No. 16 of 1973. This new move equates the DDCs at district level, to NDC at national level, as the initiator of economic development. To effect this role, a department was established in the Prime Minister's Office to coordinate the activities of the DDCs.

It was thus in consonance with the directive and the stated objective that in 1971, 1972 and 1974, 19, 21 and 27 corporations were incorporated respectively. Four were incorporated after 1974.[13] Presently, we have a total of seventy-one corporations, Nachingwea being the first to be established. The number, seventy-one, is in unison with the total number of districts in Tanzania, excluding new districts like Igunga, Iramba, Hai, Rudewa and so on.

### 1. Projects Undertaken:

The activities being undertaken by the DDCs differ from one district to another, but fall into three broad categories - productive, commercial and service projects. Fifty-three are engaged in different agricultural projects, fifty-nine in commercial projects and service projects are carried on by fifty-two corporations. Sixty-five corporations engage in productive activities other than agriculture. Over 289 projects are being carried out by 69 DDCs, of which 117 are productive and 172 are commercial and service ventures. This means, 40 per cent of the total projects are productive and 60 per cent fall under the latter category. The commercial-bias nature of the projects prompted the Principal Secretary in the Prime Minister's Office to issue a strong statement against such a trend.[14] Its result can be reflected in the projected projects of the DDCs for the period, 1977-1980.- 178 projects are anticipated; of which 99 (56 per cent) are productive and 79 (44 per cent) are commercial. Whether this is a success or not will depend upon whether the projects will be embarked on and how they will perform.

The commercial bias nature of the projects could be attributed to a number of factors. Firstly, lack of capital; productive ventures require more capital, in most cases, than commercial ones. Moreover, the latter have quicker profits than the former owing to shorter gestation period. The second factor could be that of political leaders; that is, while the DDCs were sorting out what their role was supposed to be, some political leaders, starting from Moshi, ordered the nationalisation of meat business and other leaders elsewhere followed suit. Thus, a number of private businesses were taken up including filling stations. Whatever may have been the reasons behind the commercial-bias, the DDCs cannot do otherwise unless some efforts are made to rotate the wheel towards productive projects. The efforts should include training of the required personnel, technical assistance, enough capital and so on.

2. Sources of Finance

Banks remain the most important source of finance to the DDCs. The second source being equity of the government, through the Prime Minister's Office, accounting for twenty-five per cent of the total cost of a project. Tanzania Rural Development Bank (TRDB), leads the way in terms of bank-finances. Others are National Bank of Commerce (NBC), Tanzania Housing Bank (THB) and Tanzania Investment Bank (TIB) and also Karadha Company. In 1972/73, loans worth shs 2,151,900 were from TRDB and were extended to seven corporations. 87 per cent of the approved loans in 1973/74 were TRDB's, 7 per cent were Karadhs's, and 5 per cent belonged to TIB. In 1974/75, loans worth shs 11,759,600 were awaiting approval, of which 84 per cent, 10 per cent and 6 per cent were TRDB's, THB's and TIB's respectively. The figures confirm the fact that the TRDB remains the biggest financier of DDCs' ventures. Figures on Debt/owners ratio reveal some interesting features. In 1973/74, of the total required capital (21,614,984.50) 72 per cent was debt and 28 per cent owners capital. That is shs 15,654,899 and 5,959,185.50 respectively.[15] This is a dangerous business practice despite its being in line with the government emphasis on rural transformation. A high debt ratio means that the risks of the enterprise are borne mainly by the creditors, for owner-supplied funds provides a very thin margin of safety. Nevertheless the latter have the advantage of maintaining control of the corporation with a limited investment. If the corporations were profitable, one could argue that they are paying less in interest than the returns earned on borrowed funds, but this is not the case. The end result is that they are highly indebted to the banks, notwithstanding the fact that since most of the DDCs suffer from liquidity problems, the banks have either denied them credit or withdrawn or paid only a part of the approved credit. Mbeya, Njombe, Nachingwea, Newala, to mention a few, suffered from such measures which are necessary on the part of the banks in maintaining profitability, security and liquidity. Paradoxically, the banks find themselves in a position that they have to offer more and more credit to this socialist sector (parastatals, DDCs, cooperatives and Ujamaa villages) in accordance with party and government policy.[16] But this does not water down the fact that the public sector needs to operate efficiently so as to preserve and increase national assets.

### 3. Performance of DDCs

According to a statement (Daily News, 22/2/78) issued by the Prime Minister's Office, in 1974/75, eighteen DDCs realised profits of 3,443,355 shillings while 26 others sustained a loss of shs 5,147,785.50. In 1975/76, 13 had a profit of shs 1,631,194.00 while 16 made a loss of shs 2,579.928.00. In 1976/77 financial year, seventeen DDCs made profits totalling about 1.9 million shillings while twenty-eight others incurred losses totalling about 5.2 million shillings. We can observe from the above statements that the general performance of the DDCs is poor and, secondly, some of them either do not keep accounts at all (Mbozi did not keep accounts from 1972-1975) or their accounts are not compiled in time for early auditing and submission to the Prime Minister's Office, a factor which leads to losses owing to lack of control and delay in solving the problems. This tendency has been in operation since 1969/70 and 1970/71 when nineteen corporations never submitted reports to the Prime Minister's Office contrary to the requirement of Section 10 (1) of the District Corporation's Act, No. 16 of 1973.[17] In 1971/72, the DDCs made a total loss of shs 5,850,421.00. At regional level, to cite only a few examples, Dodoma made a profit of shs 1,516,865.00; Arusha recorded a loss of shs 1,410,947.00; Dar es Salaam suffered a loss of shs 1,212,656.00 and Kilimanjaro corporations faced a loss of shs 4,032,131.00 for the 1975/76 financial year (Daily News, 1/8/77). The possible causes of this poor performance will be discussed at the end of the section. But the case study, which follows might illuminate our understanding of the factors behind such poor performance.

## C. Kilimanjaro Development Corporation (KIDECO): A Case Study

KIDECO[18] was incorporated on 18th November, 1970. It was instructed to take over the butcheries from private businessmen in Moshi area. This was the first venture undertaken by the corporation, a project which aroused "follow-suit" tendency elsewhere like: Mwanza, Bukoba, Musoma, Shinyanga, Arusha, Korogwe, Lushoto, Mbeya and Dar es Salaam. Reasons advanced as to why other corporations had to plunge into meat business are: 1) political pressure, 2) lack of clear-cut objectives of the DDCs, and 3) assumed success of KIDECO in the butchery trade.

The truth of the matter is that KIDECO had never made a profit. The purported success of shs 70,000 was due to KIDECO's management reporting either sales or gross profit instead of net profit, with the aim of giving a rosy picture to the public. The truth revealed itself in 1974 when they had to close down with an accumulated loss of shs 996,875.65, and this climbed to shs 1,111,735.30 in 1975. Bukoba and Arusha had the same experience; they incurred losses to the extent of shs 376,403.40 and shs 1.3 million respectively. Thus, they had to hand over the butcheries to the former owners. The same history is true of Mbeya and Musoma.

In 1973, Kideco embarked on town bus service project. Of the twelve buses they had in 1973, only six were operating in 1978. By 1975, losses of shs 484,204.70 had been incurred in connection with the venture. Overload. frequent breakdowns and shortage of spare parts, as well as theft on the part of the workers, have been cited as problems facing the project. These problems are made more acute by the fact that most of the buses are old - over 5 years.

In 1974, Kideco was given the task of managing two nationalised farms, Kifaru and Annahoff, of 1,158 and 738 acres respectively. When we were conducting this study the Kifaru farm had 170 acres of maize, 40 acres of beans and 40 acres of coffee plus 160 heads of cattle. The Annahoff farm was planted with the same crops. Both the farms are being financed by the National Bank of Commerce (NBC) through overdrafts. By December 1975, shs 328,246.45 worth of over-drafts was outstanding. In the same period, Annahoff had a loss of shs 141,054.60. Problems facing the projects, as observed by the management, are scarcity of farm equipments and lack of control.

1. Financial Performance of Kideco

This section will be devoted to an analysis of income statement and balance sheet items by means of calculating financial ratios; some implications and conclusion will be made thereafter. Kifaru and Annahoff estates have their own accounts since they are regarded as being a subsidiary company of Kideco: for the purpose of our study, only those relating to the transport business will be discussed.

The financial ratios reveal that the corporation is in bad shape. Its liquidity is highly questionable. On average, the corporation can meet only 0.09 (9 per cent) of its outstanding liabilities. That is why Kideco consistently couldn't pay its outstanding loans to the lending financial institutions. There are two possible causes of this situation ; either the corporation is not generating enough business, as reflected by the low activity ratios, or, the cost of doing business is so high that it is not paying at all.

The leverage ratio shows an extraordinary high debt component. The reason behind this is the very nature of the financing policy of the DDCs, whereby the financial institutions become the main financiers. As we have mentioned earlier, this policy not only ties the DDCs to the creditors, but augments further the liquidity problems of the corporations through interest on and repayment of loans. High debt-ratios in normal business practice indicates bankruptcy and calls for liquidation. The negative working capital portrays such a phenomena.

Negative working capital, apart from being an indication of bankruptcy, leads also to a situation where some projects, at a certain point in time, could come to a stand still or operate under-capacity due to lack of finance. The effect being poor liquidity, activity and profitability ratios.

Activity ratios are low for fixed assets turnover but lower for total assets turnover. These two ratios show that the corporation is simply not generating a sufficient volume of business for the size of its asset investment. As a remedy to this situation, sales should be increased, or some assets should be disposed of or both steps should be taken.

Profitability ratios' history is of negative percentages, meaning the enterprise has not been operating effectively. The low rates of profit margin on sale and return on total assets result from high costs of doing business and low profit margin on sale, as well as from the low turnover of total assets. On the other hand, the return on worth is not as bad as the profitability ratios because of the high leverage ratio. That is, high debt ratio does boost the ratio substantially. This is because whatever is gained on the borrowed funds, after paying off interest charges, accrues to the shareholder regardless of their small contribution. Nevertheless, such a policy has its limitations: 1) it increases the risk of bankruptcy and 2) creditors might be reluctant to offer more credit since they do bear most of the risk. This is more so in a situation of poor performance of which the DDCs are a part.

## 2. Factors contributing to the poor performance of the DDCs

The first and foremost factor is lack of cost-benefit consciousness on the part of both management and political leaders in procurement, allocation, administration and evaluation of resources. The bulk of DDCs' projects are financed by debt which carries an obligation of paying interests apart from repayment of the principal. Thus, whatever is earned finds its way to the creditors. The end result of this is liquidity problems. Funds are allocated to projects which have not been thoroughly analysed in terms of economic viability and financial feasibility. Project appraisals are either not done at all or, at least, are not done thoroughly or accurately. Such projects, in any case, end up in failure. The incompleteness or inaccuracy of the appraisal might be either intentional with the aim of forcing its acceptance, or unintentional because the person doing it is not well trained in this field so he fails to know and consider all the factors pertaining to the project. Whatever the case, more costs will be incurred than the accruing benefits. Overemployment, just like underemployment of resources - a disease of many corporations - leads to more costs being incurred than the gains because with scarce resources, enough business cannot be generated to justify the over employment. This subject will be discussed in detail under the third factor - nature of projects.

Employment of unqualified persons also causes the same havoc in terms of costs. An unqualified accountant cannot design a good and an effective accounting system. Likewise, a poor manager cannot make rational decisions. The effect of all these is poor performance. The swelling character of administrative and general expenses in a number of DDCs' financial statements is a manifestation of over employment of personnel. Dar es Salaam employed twice the number of the necessary workers in the meat business between 1971 and 1973, about 650 workers were employed by the corporation. Presently the number has been reduced by half and the business still survives. Mbozi had employed twelve bar maids, an accountant and a cashier in its bar business despite the fact that sales did not exceed three cases of beer per day! Private bars of the same capacity employed one or two bar maids.

In general, the administration of the corporations is highly questionable; loans are not put into the purpose they had been requested for - the bankers complained of this (Daily News, 19th March 1978). Cash was not being frequently deposited in banks, causing thefts and other losses (KIDECO had more than shs 6,500 on hand on 30th June 1977). Working capital was neither properly planned nor prepared well in advance resulting in negative working capital, leading in turn to more losses being incurred, as projects come to a standstill, while at the same time, fixed costs are continuously being incurred (refer to the ratios). Workers have no job description; thus, in the final analysis, they work in confusion. Moreover, lack of incentives leaves the workers unmotivated. (None of the corporations visited had incentive schemes). Management hardly uses financial ratios to evaluate trend of events. Some ratios are so much out of proportion that one doubts the capability of management. Without the use of ratios one can neither plan nor know the trend of his performance.

Lack of proper and informative accounting system could be cited as a second factor. An examination of corporations' financial statements discloses the failure to prepare accurate and informative statements. KIDECO, as we have noted earlier, had two subsidiary companies - Kifaru and Annahoff Estates, but their accounts were not disclosed in the parent corporation financial statements. This non-disclosure, led the corporation into not showing a correct view of its financial position (Auditor's management report, 7th April, 1978). In turn this led to a wrong guide to management in planning and controlling the activities of the enterprise, as well as, misleading outsiders in evaluating the performance of such corporations. There is a tendency by management to create a favourable impression by reporting sales and/or gross profit instead of net profit. This is natural because financial statements disclose their competence. The danger involved in this tendency is that such financial reporting gives a wrong picture of the financial position of the organization and the events of the year. This practice was common in Tunduru, Mbinga, Moshi, Karagwe and Handeni, to mention just a few. Another factor contributing to the inadequacy in the accounting system is lack of qualified manpower. Over fifty per cent of the corporations were operating without proper accountants. Unaudited accounts, late preparation and delayed submission of financial statements are rampant in the corporations (refer to footnote 17). The role of an auditor is that of providing an unprejudiced view on how management has reported the organisation's progress; so it becomes a tool of control. Late preparation of the statements not only delays planning, but makes early attack on problems which are adversely affecting the performance an impossibility.

The nature of the projects is a third factor affecting performance. The projects undertaken by the DDCs are what we might call "petty business or family business, for example, meat and petrol ventures. The effect of running such projects by the DDCs is bureaucratisation: that is, employment of project managers, cashiers, accountants and so on, with the end result that the project cannot pay because it cannot generate enough sales to offset the costs involved, despite the fact that in most cases, the sale price is given and the margin of profit in such ventures is quite marginal. Instead of striving to minimise costs, the opposite takes place. That was why the "take-overs" were immediately followed by increasing costs, whereas, formerly they were making profits with limited costs (because of the use of family labour and a few workers). Where the project happened to be agricultural, farming and livestock, the acreage and the number of livestock kept did not justify the inputs. It was normal to come across DDCs (e.g. Mbozi) having two tractors, a farm manager, and a number of other workers on a farm of less than one hundred acres or a poultry farm of two hundred to three hundred chicks (e.g. Rombo)! Petty projects plus overcapitalisation, as the above two examples illustrate, affect profits adversely and they cannot enjoy the economies of sale. A number of DDCs complained of competition.[19] The nature of competition is that of private versus public capital. Lack of demarcation between projects which are viable or feasible under public or private capital on the part of the DDCs, as reflected in the nature of projects, is solely responsible for the competition.

Projects are initiated and enunciated by political leaders who have no trade or industrial experience, and yet tend to become assertive authorities on business matters. The techno-professional personnel are ultimately responsible for implementing them the decisions. The effect of this mode of implementation by "panicking" has produced nothing short of losses. Nationalisation of butcheries, filling stations and farms which were later put under the DDCs resulted in big losses.[20] Mbeya handed back her petrol business to the former owners, but the political leaders rejected the decision. The nationalised farms being run by KIDECO incurred losses of shs 62,883.30 in 1974. These "pressured" ventures failed because no proper research was carried out on them. On implementation, it was realised that they had neither capital nor qualified personnel to run the projects.

The fifth factor is that of natural disaster, "thirty-nine" DDCs dealing with agriculture sustained losses because of drought". Although drought contributed to this failure, still it fails to answer the question, "how well were the projects being managed?" The answer is part and parcel of the already stated factors.

Finally, other factors like undercapitalisation and slow paying creditors are not independent of the first factor. We have opted to discuss them separately because they appeared now and then during our visits to the

DDCs. Prime Minister's Office provides only twenty-five per cent of the total cost of any project, although the percentage has been raised to forty with effect from July 1978; unless the corporations are profitable, this problem will persist. Meat, petrol and distribution businesses have faced the problem of debtors not clearing their bills in time.[21] This adversely affects working capital. Although it could be a factor of poor credit policy, the debtors, especially governmental institutions, need to be blamed for not meeting their obligations. The problem was rampant in Ngara, Mbeya, Maswa, Kilosa, Newala and in many other DDCs. A number of DDCs resolved on 12th May, 1976, not to supply petrol on credit terms. The action shows the seriousness of the credit-problem in the DDCs.

Acts of sabotage were cited as being contributing factors to the poor performance. Former owners removing vital equipments from the butcheries, thefts, misuse of resources, putting farms on fire and so on, were common in some DDCs.[22] DDCs being instruments of a new ideology - socialism - are bound to have enemies both from within and from outside. Politicisation through political education might be a cure for the problem.

Discipline on the part of DDC workers was very shaky. Perhaps, the auditors-management report on KIDECO is quite illustrative. "A scrutiny of the staff files reveal that the management is not strict enough on staff discipline. Some of the staff were being warned several times without any improvement. We feel discipline is very necessary to the future welfare of the corporation and, therefore, stricter disciplinary actions should be taken as per law to maintain or bring about an acceptable behaviour which will enable a high standard of efficiency for achieving the corporation goals."

We have enumerated a number of problems facing the DDCs. These problems reveal that most of them are related to financial management. In fact all of them have got a component of this. For example, theft is part and parcel of inadequate control system which, in turn, is related to the accounting system - a financial instrument. That being the case, we can rightly relate the factors adversely affecting the performance of the DDCs to those of lack of adherence to sound financial principles as discussed in section A. Future performance of these corporations, and the public sector at large, will depend upon the degree and rate of adherence to these principles.

## D. Summary and Recommendations

Public corporations have assumed from significant to dominant economic and political importance in Tanzania and in the Third World Countries at large. In Tanzania, they penetrate each and every sector of the economy.

There are diverse reasons for creation of these corporations. Even in the same country different public corporations have been established for different reasons. They range from ideological, social and political to pragmatic and situational. Whatever the reasons might be, the public sector has an important role to play in the economic development of a country.

The purpose of this study has been that of evaluating the financial performance of one of the public corporations, District Development Corporations. Evaluation is a broad concept but an important aspect of public enterprise. Despite its broadness, it should refer to the way in which an organisation has carried out the economic and social policies of the government it intends to serve. The criterion of evaluation has been that of profitability. The yardstick has a drawback of not being a conclusive measure of efficiency. Monopoly practices as well as public policies calling for low prices or increase in costs may affect profits positively and negatively respectively regardless of the efficiency factor. Nevertheless, the fact that the corporation ought to conduct its activities at the lowest cost possible overrides the drawback.

The financial performance of the DDCs, and other public corporations in Tanzania, has been poor. Factors leading to such performance vary from one institution to another but they are mainly emanating from poor management in general and financial management in particular. Cost-benefit consciousness lacks in procurement, allocation and administration of resources. Evaluation of the activities by management is hardly looked at. Projects are embarked upon without or with inadequate feasibility studies. The petty nature of projects and bureaucratisation multiply costs and ultimately affect profits adversely. Indiscipline on the part of the workers and natural calamities were also contributory to the poor results. Lack of proper accounting system and the tendency on the part of management of hiding their inefficiencies and passing blame to others have tended to aggravate the situation.

Given the dominance of the public sector in Tanzanian economy, the poor performance of the sector not only indicates a destroyal of national assets but, more important, is the fact that the rate of economic development is slowed down. Socialist transformation with the ultimate aim of raising the standard of living of the masses, depends solely on the performance of this sector. This being the case, there is an urgent need of raising the performance of these corporations. The following recommendations should be of assistance.

1. <u>Training</u>: Improved performance of the corporations will depend, to a large extent, upon the emphasis put on training. Training

will equip those who administer the corporations with the necessary concepts and principles underlining their field of business. On the other hand, training will be meaningless unless it is need-based and the working environment is conducive to applicability of the learned knowledge.

2. Political Intervention: The Party and the Government have every right to see that the corporations operate in line with the policies and priorities of the country. This being the case, guidance and collaboration with the management of the corporations is what is expected of them. The acts of imposing decisions on the latter is contrary to the above expectation. It will only give rise to conflict, a danger to good cooperation. The acts of nationalisation of petty businesses, not only led to the DDCs being forced to take them up, without feasibility studies, but distorted the plans for the corporations. The end result was losses. Such pressures need to be checked.

3. Feasibility Study: It would be of importance if feasibility studies are conducted before projects are embarked on. To this effect, it is necessary to drop the present unprofitable commercial projects. The productive ones should be restudied before more commitment of resources is effected. It is also necessary that new projects be undertaken only after the perfection of the ongoing ones, and after adequate resources - material and personnel - have been secured.

4. Attitude of Managers: In March, 1978 general managers of DDCs, at their annual conference held at Arusha, claimed that the problems facing their corporations are "structural". Such an attitude not only transfers blame to other parties, but hinders the improvement because it assumes that they (the managers) have nothing to do with the performance of the corporations. They were blasted by a project officer from TRDB who correctly observed that the poor performance of the DDCs was due to "gross mismanagement". Unless the managers change this attitude and look for ways and means of performing effectively and efficiently, the performance will remain poor. Avoidance of responsibility on the part of management will do the corporations more harm than good.

5. Financial Statements: Maintenance of timely, accurate and audited financial statements should be the legal duty in each corporation. Timely and accurate statements facilitate appropriate solution of problems at their earliest by taking corrective action before things reach a point of no return. Auditing is a crucial instrument of ensuring accountability of public enterprise. It is also important for control. Its potentiality as a control mechanism consist of the impact it has on the managers in their financial transactions, knowing that they will face it in due course. Towards this end, it is advisable that both internal and external auditing be a rule in each corporation.

6. Lastly, introduction of clear personnel policies with regard to recruitment, promotion, disciplinary action and termination of service should be emphasized. Politicisation of the workers is important not only for motivating them, but for also ensuring that acts of sabotage are minimised.

Socialism does not deny the existence of personal enterests. But it does eliminate the selfish interests of capitalistic profits and the antagonistic opposition of one type of interests to another. The introduction of incentives in public corporations in Tanzania is necessary in order to encourage the active and conscious participation of the workers in the management of production. The system of material incentives can be based on both wages and production bonuses; either for personal or collective achievements or both. This calls for the setting up of personal and collective responsibility; that is, an individual, as well as an enterprise should know what is expected of them. But the setting up of responsibility schemes is meaningless unless it is attainable and that ways and means are devised in order to check fulfilment or non-fulfilment of this responsibility and corrective action taken when required.

The implementation and success of the list recommendations will depend on the cooperation and coordination between the Party, Government and the corporations involved. Coordination and channeling of their interests into a common course is a necessary condition for an efficient management of the economic life of the country. This is more so, under socialism, where every enterprise is a part of the whole, a link in the chain of public property. But it is also an independent unit endowed with material means and legal rights. Just because a socialist production enterprise is public property, it cannot draw endlessly on social resources. Society supplies the enterprise with material means, but then the enterprise must become self-supporting, should balance expenditure against income, and cover its costs out of returns received from the production and sale of goods or services.

FOOTNOTES:

1. National Accounts of Tanzania, 1964-1972.

2. See Development Plans of Guatemala (1965-69), Uruguay (1965-74), Pakistan (1960-1965) and El-Salvador (1966-1969).

3. Measures for Improving the Performance of Public Enterprises in Developing Countries (UN Publication, Sales No. E. 70. 11. H.1).

4. Measures for Improving Performance, op. cit.

5. Iran, Plan Organisation, Fourth National Development Plan, 1968-1972 (Teheran, 1968).

6. Daily News, Tanzania, 18th September, 1974.

7. Daily News, Tanzania, Thursday, 25 May, 1978, p. 1.

8. S.M. Wangwe, Excess Capacity in Manufacturing: A Study of Selected Firms in Tanzania, ERB Paper 76.2, Economic Research Bureau, University of Dar es Salaam, November 1976.

9. See Issa G. Shivji, "Capitalism Unlimited: Public Corporations in Partnership with Multi-National Corporations", The African Review, III (1973), pp. 304-381; Andrew Coulson, "Blood-Sucking Contracts", Department of Economics, University of Dar es Salaam, 1972 (Mimeo).

10. MacDonald, D.F., "Disclosure in the Public Financial Statements of Tanzania Parastatals", February 19, 1974 (Unpublished).

11. Junior Minister in the Prime Minister's Office (Tanzania), address to Members of Parliament Budget Session on June 21, 1978.

12. C.B. Makubi, "Comparative Management Problems of Public Corporations in Tanzania: The Case of Cooperative Unions and DDCs", Unpublished M.A. Dissertation, University of Dar es Salaam, 1976.

13. Prime Minister's Office, DDCs department, Dodoma, 1978.

14. "Ujamaa Leo", No. 11, Prime Minister's Office, Dar es Salaam, pp. 2-3.

15. The calculations are authors', data source: Prime Minister's Office.

16. See The Annual Plan for 1972/73, Government Printer, Dar es Salaam, p. 53.

17. The section reads, "Every DDC shall keep and maintain proper accounts and other records in relation thereto, and shall in respect of each financial year...prepare a statement of accounts in such manner.

18. Moshi DDC came into existence by Government Notice No. 52, issued under the District Corporation (Establishment Ammendment No. 2) Order, 1975, to replace KIDECO.

19. Moshi, Arusha, Lindi, Bariadi, Sumbawanga, Mpanda and Songea - complained of competition.

20. Arusha, Morogoro and Bukoba lost shs 1.3 million, 354,289.20 and 376,403.40 on butcheries respectively.

21. Mbeya fuel debtors owe shs 500,000.00 (1975), Arusha meat debtors 450,000.00 monthly (1973), Musoma petrol debtors shs 375,000.00. Mostly to government departments and parastatals.

22. The former owners of nationalised butcheries in Arusha removed vital equipment. Acts of sabotage were also reported in the West Kilimanjaro nationalised farms. People wantonly destroyed crops, refused to work as casual labourers during harvest season, etc.