THE PRIVATISATION PROCESS AND THE PARTICIPATION OF LOCAL INVESTORS IN TANZANIA

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Abstract

Tanzania adopted economic stabilisation and reform policies since mid 1980s, in which, the privatisation of the state owned enterprises formed one of the major economic actions towards enhanced economic growth. Privatisation methods have been varied and participation involved foreign and local investors). This article assesses the extent of participation in privatization process by local investors in Tanzania. Preliminary findings show some mixed results. The number of local investors that participated in ownership of the privatised firms has been higher than that of foreign investors.

However, in terms of investment values, foreign investors' participation is more than seven times higher than local investors. Local investors' participation concentrated in the agricultural and related sectors mainly through outright purchase, management and employees buyout. The foreign investors are concentrated on the financial services, manufacturing and mining industries in which they have controlling interest, having acquired it mainly through the bidding process. Several factors have inhibited the effective participation of local investors in the privatisation process including lack of access to resources from financial institutions, low income levels, limited business acumen and entrepreneurial skills and culture, lack of team spirit and business networks. Other barriers include inefficient bureaucracies and corrupt practices and inadequate policy and government support.

It has been finally argued the participation of local investors should not just be viewed in terms of the direct acquisitions of the divested state owned enterprises, rather there is a need of recognizing and enhancing the local investors capacity to participate through access to financial resources, technology and entrepreneurial capacity building. There is further the need for enhanced transparency, greater access and disclosures of information to the public in privatization of the remaining state owned enterprises.

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Background of Privatization in Tanzania

Private sector promotion and privatization in Tanzania has a history that can distinctly be traced to the early days of independence, in the early 1960s. Shortly after independence (1961), Tanzania had no elaborate investment and private sector promotion policy. The government realized the necessity for promoting private foreign investors and embarked on the program of creating a conducive investment environment through the Foreign Investment Act (1963) (Peter and Mwakaje, 2004).

During this period, local investors (LI) were busy in peasantry activities as neither policy nor legal regime change was put in place to encourage their active ownership participation in the formal economic activities. Rasmussen (1979) reports a direct suppression of independent artisan and trade activities undertaken by African Tanzanians and obvious tolerance of similar activities conducted by Asian Tanzanians. Schaedler (1968) adds that the education provided in pre-and-post independence period aimed only at creating white color workers and not entrepreneurs. Access to credit, LI (African origin) was limited and Africans were barred from obtaining credit from the existing banks (Mabele and Msambichaka, 1979). The LI participation in the economy was thus vividly limited.

The government's sharp turn in economic policies in 1967 via Arusha Declaration, focusing on creation of centrally planned economy was a hallmark in the development of the private sector and LI participation in the economy. The ruling economic policies and instruments relegated the private sector players to a secondary role and effectively crowded out in the economic development process (Mtatifikolo, 1999, Mramba, 1964).

The state-planned economy era up to the mid-1980s was characterized by a series of economic crises exemplified in negative growth rates and falling productivity rates in productive sectors and acute shortage of basic needs. Over the same period, the private sector operators particularly, African Tanzanians sought refuge into the informal sector (Malyamkono and Bagachwa 1990). In the mid-eighties, the crises became untenable and the government had to undergo economic reforms in almost all sectors. Central in this study are the reforms of the former state owned enterprises (SOEs) that had reached over 400 in 1990 (Costello, 1994), with accumulated loss of over US $100 (Kigoda 2001) and running non-core activities (Mkapa 2002). The Parastatal Sector Reform Policy (PRSP) was fomulated in 1992 to re-define the government's role as the maintenance of law and order and service delivery. Presidential Parastatal Sector Reform Commission (PSRC) was formed and mandated to privatize the SOEs.

One of the central objectives of privatization of the SOEs was to broaden (local) participation in the ownership/control and management of businesses hitherto in the hands of the state (Kavishe, 2002). Whether this has been achieved and in what ways, is still an unanswered question. Malyamkono and Bagachwa (1990) expressed skepticism over LI participation in the country's privatization by pointing to mere absence of a strong indigenous entrepreneurial class and lack of substantial capital and fear that net beneficiaries will be foreign multinational corporations. In this article, an attempt is made to assess the extent of LI participation in privatization process and also describes the enabling and inhibitive factors to for the observed participation level.

Study Methodology

The objective of the study upon which this article is based was finding out the extent of participation of LI in the Tanzania privatisation process in terms of ownership in the privatised firms, method of privatisation and the type and nature of sectors they participated in. It further sought to find out the factors that could explain the observed participation of LI.

Respondents were selected from Dar es Salaam city basing on a number of reasons. Firstly, Dar es Salaam city is the largest populated by most privatised SOEs, harbouring the majority of stakeholders/actors in the privatisation process, including the Capital Markets and Securities Authority, Dar es Salaam Stock Exchange, the PSRC, Privatisation Trust, Tanzania Chamber of Commerce, Industries and Agriculture and Tanzania Investment Centre. Secondly, Dar es Salaam is also a commercial centre in the country.

Other considerations included access to information and proximity to the infrastructure. The study was conducted from May to June 2002 and involved a total of 57 individuals conveniently selected and interviewed. Primary information was obtained from a total of 30 privatized SOEs (from 1994 to 2002) through a study questionnaire.

Mode of divestiture of the sampled firms include sale of shares (50%), sale of assets (20%), joint venture, management and employees buyout (MEBO), liquidation and capitalization of the firm (3.3 %), while other forms of divestiture (lease, management contract, management buyout) accounted for a total of 16.6%.

A questions checklist was designed for data collection from the institutions that promote privatisation and private sector development, the PSRC and TIC. Responses from institutions and companies (hereinafter institutional respondents) were provided by senior management staff.

Privatization Concept and Experiences

Privatisation

In Africa, privatization has since the late 1980s been advocated by the International Monetary Fund (IMF), under the structural adjustment programs (SAPs) as a fundamentally sound economic approach for enhancement of entrepreneurship. Elkan (1998) postulates that entrepreneurship is Africa is low because governments dominate too many commercial activities and thus advocate privatization of SOEs as one way of raising entrepreneurial activities.

Privatization is broadly referred to as a process of increasing efficiency of the private sector or any policy move to foster the private sector development (Naya, 1990). Narrowly, privatization refers to a transfer of SOEs into the private sector by whole or partial-sale including liquidation (Ddumba-Ssentamu and Mugune 2001). Mwansasu (2000), while examining privatization in Tanzania, defined it as the transfer of ownership of SOEs to the private sector by the sale of firms. Mandara (1997) in his study on SOEs privatization sees it as an antithetic of nationalisation and shifts from a centrally planned economy to market based economy. Due et al (1999) defines privatisation as a process of selling the majority shareholding of SOEs to private entrepreneurs that can also result into joint private-government ownership.

In this study, privatization means the process of promoting the private sector development through the transfer of the ownership and controlling majority of the SOEs to private individuals and entities through various divestiture methods.

Privatization objectives in Tanzania are several including the improvement of operational efficiency, contribution to the national economy, reduction of financial burden of SOEs on the government budget and expansion of the role of the private sector among others (Kavishe 2002).This study focuses on the objective of encouragement of wider participation by the "people" in the ownership and management of businesses. People mean Tanzanian local investors (our own understanding).

Local Investors

The term LI has been defined as a natural person who is a citizen of Tanzania or company incorporated under the laws of Tanzania in which the majority of shares are held by a person who is a citizen of Tanzania or a partnership in which the partnership controlling interest is owned by a person who is a citizen of Tanzania (TI Act 1997, S.4). The term, local investor used herein expands this definition to include local entrepreneurs/ owner managers of small and medium enterprises including those not incorporated or registered as partnership. Some of these have participated in the ownership and management of the privatized enterprises, while others have not.

Privatization Methods

The choice of privatization method depends, among other things, on privatization objectives, the country's characteristics, like capital market development and legal infrastructure and the size and nature of the SOEs. In Tanzania, the methods used entailed lease arrangements, liquidation, joint venture, management contract, management and employee's buyout (MEBO), outright sale, private placement, and public offering.

Under lease arrangement, a private sector firm agrees to run and invest in an SOE for a specified period, with specific terms on remuneration and lessee payoffs and rental income payable to the government. Liquidation involves full or partial sale of chronic loss, making SOEs to recover the value of the remaining assets to pay liabilities, while any residual value is paid to the legitimate owners; the state. Corley et al (1996) defines joint venture as an arrangement whereby, two or more entities agree to cooperate in running one business for a specific period with clearly defined objectives, power and control limits. In management contract transactions, some or all of the management services are contracted out to a private firm for an agreed payment and no transfer of assets takes place.

Under MEBO, the management and employees agree to use terminal benefits and profits to buy their employing entity and become owners and employees simultaneously.

Share holding by individual investors as well as institutions broadens ownership because it encourages small investors to invest small sums for part ownership in the privatised enterprises (Nestor and Mahboobi, 1999). This can take place through public offering or private placement, and the government may also retain a block of shares for sale to the public later (the case of Unit Trust of Tanzania).

Why the Participation of LI in Privatization?

LI's extent of participation in privatization depends on the methods of privatization, the country's capital/financial market development, legal infrastructure, size and nature of SOEs and the privatization objectives (Nestor and Mahboob, 1999). Participation herein means acquisition of ownership, control and management of former SOEs profitably. It excludes acquisitions for re-sale.

Spring and McDade (1998) argue for enhanced LI's participation on grounds that LI compared to foreign investors have better connections to their country's institutions and people are thus more likely to produce for local arenas, buy local inputs and hire local people to run their firms, their low capital and savings notwithstanding. They add that foreign investors have no obligation to buy local materials and human resources unless compelled through host countries' policies. Rapley (1993) in support of greater participation of LI, argues that African bourgeoisie can serve as an indigenous source of dynamism in economic development if national governments implement economic policies favorable to indigenous capital accumulation and promotion of local entrepreneurship.

The LI's prior capital accumulation in the country, supports the need for participation in privatization. This is evidenced by the growth of micro and small enterprises, some of which have grown into medium enterprises (Dawson 1993, 1993, Fick, 2002; Shayo-Temu, 1998). Fick (2002) accounts for successful case studies of LI in Tanzania prior to the privatization period. The informal sector with over 220,000 LI in one city demonstrates availability of potential LI privatization participants (DISS, 1995).

Privatisation Experience and LI

Study findings on effects of privatisation in Sub Saharan Africa show mixed results and non converging evidence of the extent of participation by LI. Makennon (1999) reports that SOEs in the Sub-Saharan African (SSA) countries were acquired by foreigners, with Africans remaining as labour providers and insignificant LI ownership participation. Different methods of privatization have been used in Africa. In the early 1990's, liquidation was the most common, while recently, outright sale became more frequent.

By the end of 1996, 16 methods of privatization had been employed in Africa, with 32 percent of all transactions involving the sale of shares by competitive tender (Makennon, 1999). In Angola, Ghana and Senegal, most of the divested SOEs were sold directly to foreigners. Positive effects have been related to increased government revenue for countries such as Angola, Ghana and Senegal (Makennon, 1999) but no account of the LI participation is given.

Participation of LI has been related to the privatisation methods. Makennon's (1999) privatization review of six SSA countries shows that only 44 MEBO had taken place accounting for only one percent of all the transactions. For instance, concluded MEBO transactions were only 16.7% (of 30) Zambian by 1995 and only one in Nigeria MEBO by 1999. The reasons advanced for such low MEBO numbers include unrealistic business plans, lack of investment capital, inadequate poor investment analysis, inadequate legal framework and poor financial management skills including inability to service bank loans (SAPRI, 1999). Attempts elsewhere to use employees-preference schemes have apparently not resulted into a wide stratum of small owners (SAPRI)[i] .

Outright sale privatization transactions in some SSA countries (Kenya and Ghana) have been accused for lacking transparency and thus not much inference on LI participation can be made (Makennon, 1999). Spring and Dale (1998) claim that privatization failed to affirmatively focus on the promotion of disadvantaged LI and assumed their automatic participation through increased access to technology and businesses without considering the endemic business constraints like high start up capital for technology-based firms, limited local technical staff to use and maintain technology and lack of credit.

Bewayo (1999) discounts the privatization methods including public offering, private placements and MEBO, as being deficient of individual and entrepreneurial risk-taking.

He argues that outright sale to foreigners speaks against the notion of *"economic empowerment of nationals in many African circles"*. SAPRI (1999) results in Uganda report foreigners as the net beneficiaries having acquired 75% of privatised SOEs, and LI only 16% of the total divestiture proceeds. SAPRI (1999) report states, *"Privatisation involves reallocation of property rights in a country. Local populations, however, often possess only limited capital that can be invested in newly privatised firms. Where there are not realistic possibilities to establish broad-based national ownership or..., there is a danger of selling off the entire economy and polarizing the country between powerful capital holders – often foreigners or ethnic minorities and – destitute wage earners" (p.100).*

Evidence from non-SSA countries shows more pronounced participation of the LI in privatization. In Tunisia and Egypt, the privatisation process formed an integral part of the economic reforms. The interests of LI and SOEs employees were embedded in the implementation of privatisation programs through incentives such as shares sale to employees and management discounted shares and assets and extended payment periods (Bergen, 1995). In Tunisia for example, the workers were granted first priority for shares and assets purchase as discount, which resulted to 5.3% employees-shareholding, 73.7% shareholding by LI, while foreign investors acquired only 21% of the investment value of the privatised companies . The Egyptian government objective to broaden ownership was set at 10% employees buy-out of their SOEs through discounted share prices (payable in 7 years), which culminated to 20% employees shareholding of former SOEs.

The foregoing discussion reveals mixed effects of privatisation on participation of LI. There is no converging evidence of the extent of participation of LI. This has been a result of the methods of divestiture adopted and policies adopted among others. The fear embedded in these results is the inability of achieving the macro economic and social milestones of broadened SOEs ownership and control and increased net national output, and national unity via local entrepreneurship as argued by Carland and Carland (1993).

[1] No name / Berger Paper at Conference in Development Economics, The Norwegian School of Economics and Business Administration Bergen, November 27-28 1995

Privatization Performance in Tanzania

Transactions Undertaken

A total of 344 SOEs were to be privatized through private sales and joint ventures (160), public share offerings (12), competitive bidding (27), management buyout (12), liquidation (67), asset lease and management contracts (17) and 16 performance contracts (Mtatifikolo, 1999). All transactions were handled by PSRC except the liquidations under the Loans and Advances Realisation Trust.

As of June 2002, a total of 211 privatization transactions were completed/approved by the PSRC, while 48 liquidations were accomplished through LART, resulting to target achievement of 75% (PSRC 2002). The 180 completed & approved transactions were 180. These included share sale 43.9%, asset sale 25.6%, liquidation 17.8% (32), leases 5% (9), outright sale 2.8% (5), closure 1.7% (3), concession agreement 1.1%(2) and I transaction in MEBO, transfer and debt swap or only (0.56%). The incomplete 31 transactions were assets sales (17) MEBO (5), liquidation (1) and 8 share sales (PSRC, annual Report 2001/2002, and Action Plan 2002/2003).

Characteristics of SOEs Acquired by LI

The characteristics were analyzed using available and segregated data on 135 SOEs; 100%-acquired by LI and 14 SOEs 100%-acquired by foreign investors (PSRP, October 2002). One common feature of all LI participants is that virtually, all had on going businesses prior to privatization, which speaks in favor of capital accumulation or access to capital for effective participation.

Our analysis had been based on 95 SOEs, about which we obtained detailed information. Results show that almost 50% (47) of LI acquired SOEs are in agriculture and related activities like cereals milling, crop, dairy, poultry and piggery farming and transportation services. About 13% of processing/extractive enterprises in shoe-making, textiles and food-processing and only 4.2% (4 SOEs) in mining and in engineering/fabrication enterprises were acquired by LI. The mining activities are salt mining and light gemstone, while the diamond and gold mining were 100% foreigners acquired.

The service-oriented SOEs acquired by LI are mainly trading, distribution, hotel and handicraft marketing. Discerned from these results is some evidence of positive move towards promoting agriculture and enhanced economic linkage to the peasantry coupled with low level LI participation in technology based and high value activities such as manufacturing and mining. The argument of enhanced access of advanced technology via privatization remains questionable given the LI concentration in former agricultural, repair and maintenance SOEs.

Ownership Structure: Investment Values Vs Quantity of participants

The ownership structure of SOEs privatized was analyzed by examining the proportion of ownership between foreign Vs Tanzanians using number of participants and investment values. Under the value approach (as at 2002), the government owns 12.73% of the sampled firms. The LI owned 10.44% , while foreigners owned 76.83% similar to Uganda and Kenya (Makennon, 1999). However, in terms of absolute numbers, the foreign investors were reported as only 14 Vs 135 LI. Table 1 gives an overview of ownership structure in sample firms and in absolute numbers of all firms privatised.

Table 1 : Ownership Structure of Sampled Privatised Firms (Investment Value Vs Numbers of Investor

	Amount in Tshs.	% of Value	Owners	Number*	% Number basis
Government of Tanzania	10,252,253,000	12.73	Mixed with foreigners (Joint venture)	190	58.3
Tanzanians private	8,406,830,247	10.44	Tanzanians	122	37.4
Foreigners	61,856,029,750	76.83	Foreigners	14	4.3
Total	**80,515,112,997**	**100.0**		**326**	**100.0**

Source: Data from the study, 2002; *PSRC 2001, all SOEs that were under PSRC without considering the Stage of completion

Figures 1 and 2 compare ownership structure between local and foreign investors using the number and value of investment.

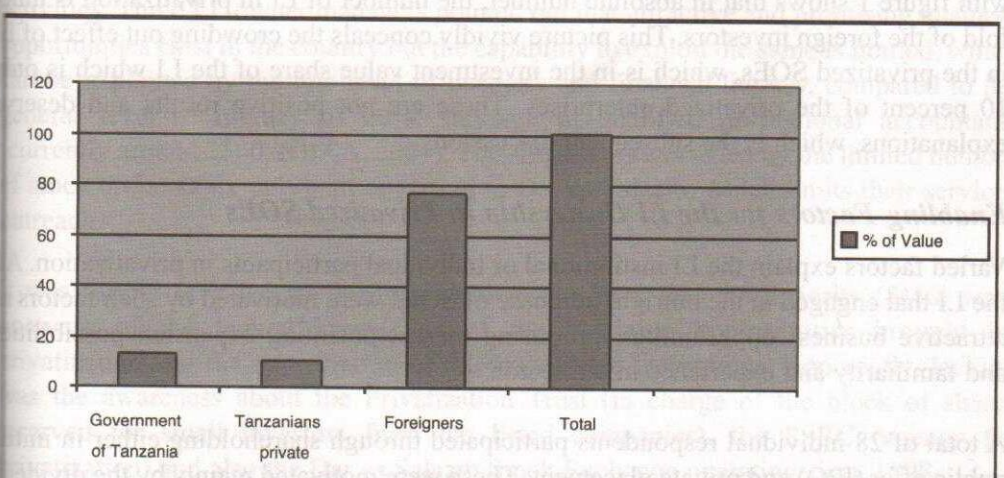

Figure 1: Ownership Structure of Privatized SOEs by the Value of Paid Up Capital

The used exchange rate: Tshs. 10000 to 1 US Dollar *(November 2002).*

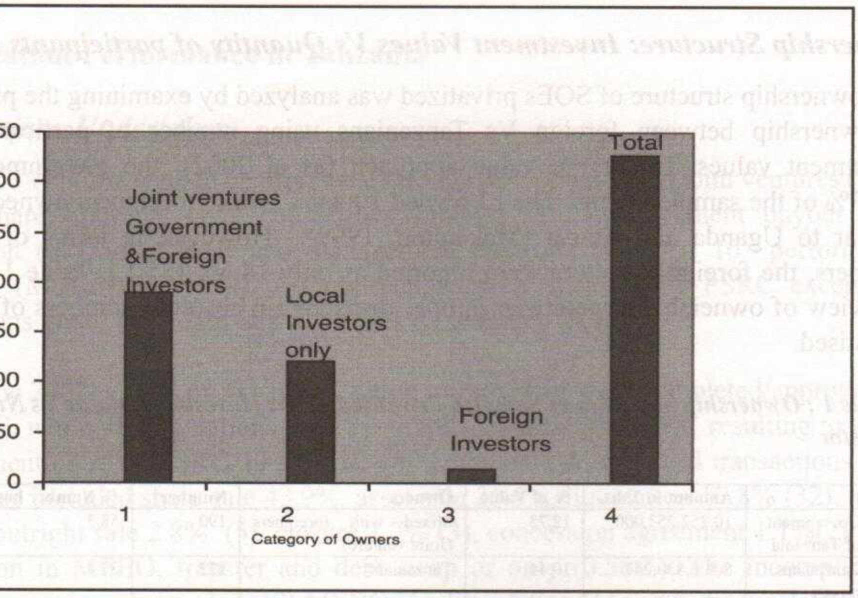

Figure 2: Owership of Privatized SOEs by Number by Owner Category

The figures 1 and 2 portray two different impressions that if taken separately can be misleading. Figure 1 shows minimal participation of LI in privatization expressed in low investment values, which is only 10 percent compared to 76% of the foreign investors thus absolute dominance in privatization proceeds value. Figure 2, in contrast with figure 1 shows that in absolute number, the number of LI in privatization is nine-fold of the foreign investors. This picture vividly conceals the crowding out effect of LI in the privatized SOEs, which is in the investment value share of the LI which is only 10 percent of the privatized enterprises. These are not positive results and deserve explanations, which is the subsequent discussion.

Enabling Factors for the LI Ownership in Privatized SOEs

Varied factors explain the LI institutional or individual participants in privatization. All the LI that engaged in the outright purchase of SOEs were motivated by such factors as attractive business opportunities, promising market potential, expansion possibilities and familiarity and experience in the sector.

A total of 28 individual respondents participated through shareholding either in initial public offer (IPO) and private placement. These were motivated mainly by the dividend income and capital gains promised profits forecasts in prospectus. As Fumbuka (2004) argues, the IPO number one market expectations were dividends and not assumption of control/management positions like directorship. According to Fumbuka (2004), the local individual investor is not benefiting much from share trading on the Dar es Salaam

Stock Exchange because the shares are not freely available as they are still controlled by the government or strategic foreign investors with conditions that restrict their tradability on the exchange.

The LI that took part in MEBO were determined to turn around their former SOEs in addition to other crucial factors such as ready market, growth potential, industry-specific expertise and knowledge, prior business connections and networks.

It is worth noting the remarkable performance in some companies with significant participation of LI, notably the countrywide commercial bank, CRDB Bank Limited. CRDB Bank is an outstanding success story with broad ownership structure of over 11,000 individuals holding (44.7% share ownership), local corporate investors accounting to 25.3% and only one strategic investor, the DANIDA Investment Fund (30%). The bank's track record shows consistent and positive performance over the past 5 years with the LI enjoying cash dividend and capital gains in terms of increased equity value (CRDB Bank 2002, 2003, 2004).

Factors Inhibiting LI Participation in Privatization

Low Level of Education and Limited Skills in Investment Analysis

Significant percentage (40%) of both institutional and individual respondents supported the claim that low level of education in particular business and entrepreneurial knowledge and exposure were inhibiting Tanzanians in participating in the privatisation activities. Three LI owner managers pointed out that attractive and promising business opportunities exist in the country but the capability to exploit the same is limited, which can be explained by the low level of business and financial literacy, compared to the general level of literacy of 60%, shortage of qualified professional accountants (currently around 2300, NBAA, 2001). The situation is worsened by the limited number of stock brokers (six only), all operating in Dar es Salaam, which limits their services outreach.

It was further revealed by the individual respondents that the majority (51%) were unaware of the lacked knowledge of the available opportunities brought by privatization and the appreciation of the responsible institutions. Apparently, lacking was the awareness about the Privatization Trust (in charge of the block of shares reserved for small investors from the listed companies), the PSRC (agency for privatization) and also the Dar es Salaam Stock Exchange operating since 1998.

Low level of Income

Apparently, lack of capital and low income were cited as the most serious inhibiting factors to the participation of LI in the privatisation process. This was expected given the low per capita of US $ 280 (Bank of Tanzania, 2003/04) and the country's low level of development with an HDI position of 160 out of 175 (HDR, 2004). Almost all the individual (60%) and institutional investors (90%) conceded that income poverty was an inhibition to effective participation. Other related factors were lack of land rights and its use as security, lack of technology, poor infrastructure and lack of markets although these were perceived as less constraining.

Inability to Access Resources From Financial Institutions

Ninety percent of the individual respondents agreed to the question as to whether inability to access credit from financial institutions constrains LI. participation. This could be explained by the existing restrictive credit policies of most financial institutions with conditions of viable business plans, collateral demands, reliable track record and banking reputation which must be met by all borrowers. Indeed the inadequate access to credit services from both financial institutions has been acknowledged severally (Shayo-Temu, 1998, TETs, 1998). The concept of small and medium enterprises banking is yet to be firmily established in the country. Similarly, the stock exchange's conditions favour only large enterprises to raise equity capital.

The development of a capital-endowed, entrepreneurial class from the privatisation process would certainly require alliances between the state and the private interests (Spring and McDade 1998) especially financial institutions and the LI. This is apparent missing in privatisation process in the country. Even with the absence of track record on business and banking history, there is apparent lack of credit rating agencies of companies that could serve in the reduction of information asymmetry between LI and the credit institutions.

Cultural Barriers and the Influence of the Legacy of Past Economic System

Table 2 summarises the cultural barriers stated by both individual and institutional respondents. These are similar to MIT (2001) findings which established that the ability to understand the dynamics of a market-driven economy among civil service officials; although the same were expected to facilitate the privatisation process.

Table 2: Cultural Barriers Established by the Study

	Cultural aspect	Individuals (%)	Institutions (%)
	Lack of business culture	29.4	25.9
1	Attitude towards work	22.3	21.0
2	Attitude towards savings and investment	15.9	17.3
3	Conspicuous consumption	8.5	11.1
4	Lack of commitment to work	7.3	8.6
5	Others (attitude towards authority, envisioned management, material wealth)	16.6	16.1
	Total	100	100
	Number of respondents	57	30

Most of the cultural aspects are attitudinal in nature and probably linked to the legacy of the past centrally planned and managed economy, which did not consciously promote individual wealth creation mentality but focused more on communal property ownership (Mramba, 1984). The cultural elements among LI that are mostly attitudinal mindset based have also been found by ESRF ((2000).

Team Spirit and Business Networks

Business networks are essential in growing economies where each small entity cannot enjoy economies of scale. In Kenya and Botswana for example, there are successful attempts of business associations, in which relatively large private firms have associated with small firms to enable the latter gain subcontracting assignments and enjoy healthy competition through networking (Masinde 1995). Monga (1998) demonstrated how social and business networks contributed to the success of Dualan entrepreneurs in Cameroon, from the colonial rule to post-colonial era. Similarly, networks among many transition economies have been effective against inefficient government bureaucracies. McMillan and Woodruff (2002) show how entrepreneurs enforce sanctions against defaulting business parties, and exploit business opportunities even in the absence of formal structures and failing bureaucracies.

Respondents in our study perceived the lack of strong and working business networks among LI to have constrained their participation in privatization. This was asserted by 70% of the individual respondents. Probably, networking is not a very serious constraint as majority of institutional respondents did not perceive it (only 7%) as a significant constraint to LI success.

Entrepreneurial Skills and Expertise to Run Large Firms

Entrepreneurial skills have been noted as one of the primary factors in economic and enterprise growth (Spring and McDade, 1998). According to Acheson (1986) entrepreneur's organisational skills reduce transaction costs in firms. Thus, an entrepreneur with low entrepreneurial skills will fail to grow or take up business opportunities as they unfold in the environment. Entrepreneurial skills include the ability to organise and manage resources, business and financial planning, financial discipline, marketing and market diagnosis among others.

Lack of entrepreneurship skills was perceived as a hindrance to participation in the ongoing privatisation by 63% of the individual and 73% institutional respondents. On the contrary, however, the lack of exposure and expertise to operate and run large enterprises was not perceived as a significant constraint. This finding highlights the magnitude of the problem on management skills as the respondents do not appreciate the value of skilled and competent management. It also reaffirms earlier study's findings that called for countrywide entrepreneurial training to empower Tanzanians to effectively participate in the economy (ESRF 2000).

Institutions For LI Promotion

In its endeavors to promote of private investment in the country, the government established the Tanzania Investment Centre (TIC) with the major function of coordinating, encouraging, promoting and facilitating investment and advising on investment related matters (TIC, 2002:12). TIC promotes investment opportunities and incentives to both foreign and LI.

Interestingly, the study findings cast doubt on the level of perceived achievement by TIC especially when related to privatization. It was claimed by 68.6% of our individual respondents that the TIC's efforts are not focusing on LI. Examples cited include limited public access to information on investment opportunities and non-availability of granted investment incentives (including duties exemptions on capital goods for mining, petroleum and gas, etc.) to LI.

A sharply contrasting view was obtained from institutional respondents on the TIC's role in facilitating private investment as 73% of the interviewed companies believed the TIC's efforts were focusing LI. The varied views from institutional and individual respondents could be explained by lack of information, interest and probably biased views that common people hold about TIC. However, the issue at hand is indeed that there is an information gap on TIC and other related institutions.

Other Impediments

Similar to other studies (MIT, 2001), which identified ineffective and non-transparent bureaucracies as impediments to the privatisation process it was revealed that bureaucracy and lack of transparency in government and its departments serve as breeding grounds for bribery and corruption.

Over 43% of the responding individuals and institutional respondents (56%) viewed the existing laws, regulations and the governance system as hindering LI from participating in privatisation. Lack of information to the public also emerged as a hindering factor for LI to actively participate in the privatization process. This is despite the reported efforts by public awareness on privatization (PSRC 2001, 2002). About 53% of the individuals interviewed were unaware of the PSRC, while 47% lacked useful information about it. This is a disappointing finding as the process of privatization has advanced and cannot be reversed leaving many Tanzanians as observers.

Discussion

The study results reveal a mixed and inclusive picture about the LI participation in the privatization process. On the one hand, some LI have substantially benefited through equity participation in the public companies, MEBO and also outright purchase. Prior capital accumulation, industry experience and markets knowledge have played a role in enabling LI to actively take part in privatization, which corresponds to findings

Access to credit from financial institutions needs to be addressed by banks and borrowers. Information asymmetry, development and maintenance of reputable and bankable character must be addressed by borrowers. Financial institutions have to serve as good citizens by responding to the LI financial needs through innovate products.

Conclusion

Finally, it has to be emphasised that, the assertion that current privatisation in Tanzania has to some extent enhanced the participation of LI in the process. More favourable conditions needed to ensure that more Tanzanians effectively take part as owners instead of remaining as mere observers or labourers in the complete phase.

The objective of broader ownership participation should be perceived consciously for sustainable economic growth, tranquillity and social stability. This is relevant to divestiture of the remaining SOEs. Privatization of the SOEs should not be viewed as an end in itself, it is part of reforms designed to promote a better allocation of resources, encourage competition, foster a supportive environment for entrepreneurial development and develop a capital market. Lessons from speedy privatisation in Chile, show that divestitures increased concentration of economic power of a few large entities such that the government reversed the process and re-privatised later when it was able to absorb the divestiture transactions (Shirley and Nellis, 1991). Such bitter experiences need not be repeated in Tanzania.

Careful analysis and transparency in the divestiture methods and deals need to be enhanced in order to win public confidence. It is also necessary to provide a solid ground for gauging the debate on privatization through publication of reliable and verifiable information on the actual results of the privatised SOEs, based on impact assessment studies, monitoring and evaluation reports conducted by independent parties, which call for further research.

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