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SUCCESSFUL CASES AMONG PUBLIC ENTERPRISES IN AFRICA: CASE STUDIES OF THE ETHIOPIAN SUGAR CORPORATION (ETHIOPIA) AND THE NATIONAL DEVELOPMENT CORPORATION (TANZANIA)

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FOREWORD

1. Governments of all persuasions have in varying degrees and to all good intents and purposes used public enterprises as instruments of intervention in the process of social and economic development. For historical reasons and the imperatives of socio-economic development which independence imposed on African political leaders, public enterprises are today involved in virtually all the sectors of the economies of most African countries. In some of these countries, public enterprises (PEs) account for the largest share of the public investment programme, the gross domestic product (GDP) and the manufacturing value-added (MVA). For instance, PEs account for 90 per cent of MVA in Ethiopia, about 80 per cent in Somalia, more than 50 per cent in Zambia, about 40 per cent in Cameroon and in Tanzania there are about 400 PEs. African PEs are heavy borrowers from internal and, with government guarantees, from foreign financial markets including the World Bank. They also provide 30 to 80 per cent of formal sector employment in some African countries.[1/]

2. This dominance of the public sector by PEs as the main instruments and institutional forms for implementing economic development programmes has not been accompanied by effective management of the PEs although it is evident from the selected cases in this study that there can be successful public enterprises in African countries. The criteria for the measurement of success will, of course, depend on the mission and objectives which each country has set for its own PEs as well as public perception of the performance of each enterprise.

3. Like in other fields, there are differences of opinion on what makes an enterprise a public enterprise. In some cases, the interpretation of what a PE is or is not has been responsible for the inefficient performance of PEs. The mosaic of terminology such as parastatals, public corporations, public undertakings, government companies, and state-owned enterprises is indicative of the confusion which could complicate analysis and decisions on state participation in enterprises promotion and management. Similarly, a static or narrow conceptualisation of institutions and the operationalised forms of public enterprises could distort the analysis and reassessment of the appropriateness and hence success or failure of a public enterprise. Thus, a public enterprise could be defined simply as a firm or company

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1/ See ECA/PHSD/PAM/89/3(1.2): Problems of Public Enterprise Management and Performance in Africa, Feb. 1989 for comparative statistics on PEs in Africa and other countries.

in which the government has a direct or indirect financial stake of any size irrespective of institutional form and the nature of goods and/or services which the firm produces or provides. The definition of a public enterprise must be situational and dynamic. In this regard, the selected case studies, namely, that of the Ethiopian Sugar Corporation (ESC), and the Tanzanian National Development Corporation (TNDC) afford an opportunity to appreciate the multidimensional aspects of public enterprises definitions in Africa. With hindsight, the equity or stockholder capital definition of a public enterprise of the parastatal variant is not as significant as it used to be. Minority equity holders can veto corporate decisions or exercise other forms of control.

4. In terms of survival in a competitive market environment, it could be argued that financial profit or loss and cost-effectiveness must be regarded as the ultimate criteria for the evaluation of the success or failure of any public enterprise. The margin of profits or returns and cost control must be adequate for the firm to meet its direct obligations and also fulfill the public policy objectives which are inherent in the public interest of the enterprise. In this connection, Tables 14 and 15 of the ESC case is illustrative of the kind of payments the government could extract from a PE. These Tables also indicate the leverage which the government has in manipulating the financial profitability objective in order to attain other public policy objectives such as employment.

5. Thus, the ESC case demonstrates the essence of employment objective as a criterion for the measurement of success. The government could thus reduce or forego some of the taxes that would put the firm's profit and loss account in the red in order to sustain employment. A large number of unemployed persons is not a source of comfort for any society. The implication is that profitability and the fulfilment of public policy objectives are not contradictory but mutually reinforcing. Nonetheless, the concept of profitability, in absolute and relative terms, must be clearly understood and operationalised to avoid the use of social objectives as an excuse for the poor performance of PEs.

6. In absolute terms, profits could mean gross margin which is the difference between total revenue and total cost excluding charges for depreciation, interest and tax liabilities. Profits could also mean net profits after charges for depreciation and payment of interest on borrowed funds but before payment of taxes or net profits after payment of interest and taxes. The accounting system and discipline are crucial for the efficient computation of the profit margins and timely reporting of the results.

7. Relative measures of profitability and efficiency of the utilization of resources have been given in respect of the ESC (Table 6, 16, 18, 19 and 23), and the TNDC (Table 2 and 6). Needless to reiterate that financial analysis is very important in the performance evaluation of any organisation. Thus the use of financial ratios including ratios

on return on investment (ROI) and return on capital employed (ROCE) is common in private enterprise and has been applied in the selected cases to good advantage. An efficient accounting system is of essence in ratio analysis. The TNDC financial data are not as comprehensive as those of the ESC but are also indicative of areas in which improvements could be made to strengthen the success of the TNDC.

8. The format of the write-up of the two cases has been systematised to include (a) the introduction in which the enterprise environment is articulated; (b) mission or basic purpose and objectives; (c) corporate strategies and operations (d) performance evaluation based on financial and socio-economic criteria; (e) appraisal of the impact of organisational relationships on performance; and (f) conclusions and policy recommendations. While it is not intended to elaborate on each of the foregoing sub-headings of the cases, nonetheless, there are a few salient issues that need to be highlighted.

9. Formulation of definitive statement(s) on enterprise mission or basic purpose entails providing answers to the question: what is the business of the public enterprise? Long-range and short-term objectives of the PE must emanate from its mission. In hammering out the objectives, the related indicators to be used later on in measuring performance should also be defined.[2/] The statutory, perceived and operationalised mission of the PEs in the case studies are illustrative of some of the problems which tend to adversely affect the performance of public enterprises in Africa. Political statements are a source of public policy but dialogue between political leaders and technocrats who are entrusted with the responsibility for the success of the PE should be mandatory to iron out differences of interpretation of the letter and spirit of public policy statements on the expected mission and objectives of the enterprise. The success of the TNDC, and to some extent, that of the ESC would have been much greater if an attempt had been made to bring about continuous dialogue between the enterprise managers and the political leaders who are responsible for the issuance of public policy statements.

10. It is also self-evident from the selected cases that successful PEs are not synonymous with problem-free enterprises. It will be utopian, in any case, to expect any human-based institutions or firms to be problem-free. In the TNDC case analysis, the enterprise mission, objectives, the unwieldly creation of subsidiaries, accounting system and organisational relationships would seem to be the major problem areas. Given the interrelatedness of the issues in the whole case, it could be inferred that the problems only diminished and not negated the

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2/ For details see Robert Abramson and Walter Halset, Planning for Improved Enterprise Performance: A Guide for Managers and Consultants. (Geneva, International Labour Office, 1985), pp 27-32.

successful results of the TNDC. In the ESC case, the objectives are enshrined in the statutory instrument for the corporation but the mission statement can only be inferred. Incidentally, this lack of an explicit mission statement has not significantly affected the success of the ESC but it is evident from the case that employment creation as an objective within and outside the ESC became explicitly significant after the ESC became a wholly-owned state enterprise.

11. The institutional framework of both the ESC and the TNDC also deserves some observations in view of the lessons they have for other public enterprises in Africa. Both the ESC and the TNDC were not established initially as holding companies. In fact the ESC is not a holding company per se. It could, nevertheless, be treated as the latter from the point of view of the autonomy of factory facilities, financial management and relationship with the ESC administrative head office which consolidates the accounts and financial data of Wonji, Shoa, Metahara, Addis Ketema, Asmara (see, for instance, Table 15 of the ESC case study). The lesson from this ESC institutional framework, especially the autonomy factor, is that efficient factories are not expected to directly subsidise suboptimal ones. In addition, the performance of each plant or factory could be comprehensively evaluated and cost-effective control measures established for much better results. The financial discipline of the supervisory ministry and clarity of financial instruments on the obligations of the concerned parties are worthy of emulation and adaptation.

12. The TNDC was not established initially as a holding company but became one through evolution. Whether or not this was the intention of the government is a moot point. Given, however, that the holding company variant or type of PEs has become the mode rather than the exception in several African countries, there is need to suggest that countries with umbrella holding companies would find it useful to reassess the effectiveness and operational efficiency of the institutional framework of their holding corporations and commissions incharge of parastatals. The success of the TNDC in terms of profitability would seem to be due to the performance of a few of the associate and subsidiary companies (Table 2 of the TNDC case) which invariably subsidized the inefficient entities. The TNDC evaluation based on returns as indicators is further complicated by the fact that, on balance, hive-offs tend to be more than offset by new investments (Table 3 of the TNDC case study). When investment is in a state of flux and the creation of subsidiaries unwield it becomes difficult, although not impossible, to arrive at a realistic profile of profitability. The positive externalities of the TNDC and similar holding companies must also be noted. As pointed out, "a sizeable number of Tanzanians got an opportunity of hands-on training at the National Development Corporation. Many Cabinet Ministers, Permanent Secretaries, Chief Executives of Tanzania's leading companies both private and public, leading economists, statisticians, and even academicians got their training through and in the National Development Corporation." The educational and other social benefits which accrued to the ordinary workers and their dependents are some of the qualitative externalities which could be used as indicators of the success of the TNDC.

13. In the final analysis, it is evident from these two cases that, with careful planning and astute management, public enterprises can achieve the mission and objectives for which they are established. The poor performance of some public enterprises should, therefore, not be a source of despair or wholesale condemnation of public enterprises as instruments of social and economic development. There is always room to improve the performance of enterprises including public enterprises. The lessons from these case studies will no doubt, enrich policy formulation and management improvements in other public enterprises in Africa. Political leaders, policy makers in the private and public sectors, academicians, managers and administrators and those who are interested in the performance of public enterprises as instruments of economic development would relish the exposition on the Ethiopian Sugar Corporation and the Tanzanian National Development Corporation as examples of successful cases among African public enterprises. The recommendations in the two cases are particularly instructive.

I. THE ETHIOPIAN SUGAR CORPORATION (ESC)

INTRODUCTION: THE ENTERPRISE ENVIRONMENT

14. The history of sugar industry in Ethiopia starts with the signing of the agreement between the Ethiopian Government and HVA - International in June 1951.* HVA-International was a Dutch Company with extensive experiences in sugar plantation in Java-Indonesia and the making of "Dutch East Indies sugar industry foremost in the world". (Melisachew, 1990, p. 13). The agreement provided HVA-International with 5000 hectares of land to cultivate sugar cane and establish sugar factories at Wonji plain, about 100 kms south-east of Addis Ababa, on the Upper Awash basin. In addition, the agreement provided the Company with the following advantages:

(a) monopoly right over 160 kms radius to expand sugar industry;

(b) exemption from import duties on imported capital goods; and

(c) right to withdraw 10% of capital and 15% of net income every year.

The government, on the other hand, was to get 25 cents per hectare. The capital investment decree of the time permitted tax exemptions for foreign capital of not less than Birr 200,000.

15. Three years later after the agreement, the company established the first sugar factory at Wonji in 1953/54 with an initial cane crushing capacity of 750 tons per day (tcd) which later was expanded several times to reach 1,420 (see Table 2). As the operation became successful the Company changed its name to HVA-Ethiopia in 1961-62 with few Ethiopian shareholders participating in ownership equity. It then established the second factory in the name of Shewa sugar factory on an additional 1,600 hectares. This factory started production in November 1962. In addition, there were a confectionary work under the name of Desta Sweets at Wonji, Tea development plantation at Keffa, and fruit growing and cattle breeding project at Wonji which were started during the period.

16. As the demand for sugar consumption began to increase, the third sugar factory was established at Metahara in 1969/70 - 100 kms from Wonji in the middle Awash Valley under the name of HVA Metahara Share Company, with a capacity of 2000 tcd. This was later to be expanded several times.

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* Handels-Vereeniging Amsterdam

17. Although the overall effect of the local production of sugar on the Ethiopian economy during the 1954-71 was uncertain, there were vivid signals that it had not contributed to improvement of the country's balance of payments and the involvement of the indigenous people in the management and production activity was far from satisfactory. However, the benefits accruing to HVA were conspicuously high during this period (Bondestam, 1974). Profits earned for the sugar factories were good, and given the percentage of net profits and percentages of invested capital that they were permitted to remit, HVA was on its way to recoverying its invested capital. The capital intensive investments benefited highly the European industrialists who exported the machinery and technology, which contributed to the outflow of capital at the expense of increased employment opportunities in Ethiopia (Bondestam 1974). Production and management was in the hands of foreign experts who lived in "high style" like the ruling classes. It was for this reason that the economic development of the valley was highly questioned by many writers - as "development for who?" (Yohannes Sebbat 1969, Mesfin Woldemariam 1964, and Bondestam 1974).

18. The commercial development of the Awash Valley which started since 1960 with large scale cultivation of cotton and sugar in an irrigable area was creating discontent and unfavourable socio-economic conditions on the indigenous people of the land. In 1970, 22% of the cultivated area of the valley was in sugar, 60% in cotton, and the rest in cereals and fruits (Bondestam 1974, p. 43).

19. After the revolution in 1974, the ownership interest of HVA was reduced to one-third while establishing the Ethiopian Sugar Corporation by legal notice 58/1978 with the objective of overseeing the operations of the companies on behalf of the Government. In 1980/81, HVA-Ethiopia ownership was taken over by the Government and the Ethiopian Sugar Corporation became wholly Government-owned enterprise, with authorized limit of capital of Birr 200,000,000. In addition to the Wonji, Shewa, and Metahara Sugar Factories, and Desta Sweets Factory at Wonji, the following were also brought under the administration of the corporation, the Addis Ketema and Asmara Sweets Factories, and Metahara vegetables and fruits projects.

20. At present the Ethiopian Sugar Corporation comprises 3 sugar factories and 3 confectionary factories, with Head Offices at Addis Ababa (Secretariat).

1. Head Office, Addis Ababa.

2. Wonji/Shewa Sugar Factories.

3. Metahara Sugar Factory.

4. Wonji-Desta Sweets Factory.

5. Addis Ketema Sweets Factory, started in 1952, owned by State 1979.

6. Asmara Sweets Factory, started 1974, owned by State 1982.

The Ethiopian Sugar Corporation is now under the supervision of the Ministry of Industry within the food industry subsector.

ENTERPRISE MISSION AND OBJECTIVES

21. According to the legal notice, the mission and objectives of the corporation are to:

1. protect the Government interest in the Sugar Industry by:

   (a) representing the Ministry of Industry,

   (b) providing management and marketing services at appropriate fees,

   (c) promoting the growth and product improvement services.

2. conduct various studies on sugar development, and prepare plans and programmes for implementation.

3. organise, operate and administer all Government owned sugar industries.

4. produce or be involved in the production of sugar and sugar related products within the factory.

5. establish, manage, and operate agro-industrial projects designed to better utilise sugar estates and sugar productions.

6. obtain agricultural land necessary for achievement of its objectives from the Government, and hold and develop under its ownership.

7. conduct scientific, industrial and agricultural research for the implementation of its programmes.

8. market its sugar, sugar byproducts, and products of agro-industrial projects, on internal and external markets.

CORPORATE STRATEGIES AND OPERATIONS

(i) Area under Cultivation

22. In an effort to make Wonji and Shewa sugar factories operate at full capacity, 250 hectares of new land were added for cultivation from the surrounding area, while 1129 hectares were cultivated from its holdings during the post revolutionary period. The present total area under cultivation has now reached a total of 7053 hectares, an increase of 24.3% (see Table 1). Metahara which started with 2500 hectares of area under cultivation has now 8960 hectares. Since the revolution, the area under cultivation in its holdings has increased by 258.4% (see Table 1). At present, the majority of land under cultivation is developed on gravity irrigation, while 14.2% is on pump irrigation.

(ii) Capacity

23. Wonji and Shewa factories have been made to operate at their full milling capacity after executing important indigenous equipment replacement and maintenance schemes. In this regard, the manufacturing locally and replacing of vaccum pans which have been in use for 30 years and have become obsolete was an example of indigenous technological capability and imported technology assimilation and adoption (Melissachew, 1990).

24. Metahara was expanded twice to bring its milling capacity to 5000 tcd. Here also, technological capability build-up was demonstrated in the process of factory expansion, that is, in the choice of technical capacity, negotiation, and acquisition of machinery (see Table 2). Great efforts and ingenuity have been shown with success in the rate of capacity utilization with indigenous repair and maintenance of machinery, scheduling and managing preventive services thus reducing machines down-time, and efficient utilization of scarce resources (that is, saving of scarce foreign exchange which would have been spent on importing of parts) from 1975 onwards.

25. In an OSSREA grant supported research study entiled "Technology Transfer in the Sugar Industry: The case of Ethiopia", Melisachew Mesfin first elucidates how imported technology is assimilated and adopted to suit local conditions of importing country and develop technological capabilities. He then extensively analysed the Ethiopian Sugar Industry technological capability build-up in the post-revolutionary period by using various measures of capability build-up. The extent and level of participation in each project cycle, the number and extent of locally trained technological and management manpower that participated in the process of capacity expansion and machinery repair and maintenance is examined in detail.

26. The research has shown that during the expansion of Metahara capacity a "major experience in selection and acquisition of technology" had

occurred. The various models and approaches of technology choice and acquisition as developed by Titus Adobaye, and contingency model of international transfer of technology were experimented and tried upon.

(iii) <u>Production</u>

27. Sugar production in the country has shown a steady growth in the last decades since 1954. The sugar production in 1989 reached 178,000 tons from 97,000 tons in 1970 (see Tables 4 and 5).

28. The sugar output in Ethiopia is small compared to volume of world sugar production. But comparing the performance of sugar industries in the world in terms of sugar yields per unit of crushed cane, Ethiopia's sugar industry has the best ranking high results. The Ethiopian yield has been found to be 1C - 11% while for India and Philippines it is mostly 9-10% (see Table 6).

29. Melisachew in his research has done an extensive data analysis of the sugar production and productivity in Ethiopia through the use of a comprehensive formula (see Melisachew 1990, p. 67-70). The data is reproduced in Table 6.

30. Production efficiency measured by factor inputs was also found to have been raised threefold in 1986 compared to 1955 by Melisachew study, and production of sugar and all productivity measures on the average indicate increase through time. Comparison of gross productivity and net productivity for pre-nationalization and post-nationalisation period shows a remarkable improvement despite unfavourable international economic atmosphere and skills gap created by the evacuation of expatriates staff at the time of nationalisation.

31. The sugar corporation's major product is sugar, but there are important by-products of sugar such as molasses which if properly harnessed and efficiently utilised and marketed would not only generate significant additional revenue, but will also be useful for the overall economic development of the country. The corporation is also involved in extended agricultural projects like fruits, oranges, mandarines, mangoes, lemmons and grapefruit. Thus, the production in the sugar corporation includes molasses, sweets, and fruits.

32. The production of molasses has reached 60,000 tons while that of sweets run into 3000-4000 tons, and fruits 2500-2700 tons (see Table 7, 8, 9).

33. Table 2 shows the productivity in tons per man-year. Despite the tremendous increase in employment that occurred since the period of the Ethiopian revolution which almost doubled, the corporation has been able to hold its productivity steady.

34. Analysis of compiled data and Melisachew's study show that out of every dollar of sales (output), 15-20% is paid for labour, 28-30% for government, (see Table 16) and 24% for raw materials inputs in form of sugar cane. These represent close to 70% of amounts mainly paid for use of local inputs except, of course, for the imported spare parts. The capital/labour ratio which was high in the pre-revolution period declined as a result of the increased local factor inputs. Since nationalisation, factories have been working close to 80% of their designed capacity, with extreme zeal to overfulfill given production targets.

35. Again Melisachew study shows that gross productivity and net productivity using Massel's approach* were higher in the post-nationalisation than in the pre-nationalisation period.

Productivity	Total	Pre-Nationalisation	Post-Nationalisation
Gross Productivity	159.6%	112.1%	142.34%
Net Productivity	162.5%	110.2%	147.47%

Source: Melisachew Mesfin, Technology transfer in the Sugar Industry, The Case of Ethiopia, p. 44.36.

36. Table 10 shows the income from sugar sales for the last 15 years. Income from sales of sugar has more than trebled since 1974, registering a growth of 297% to reach Birr 143 million in 1988/89. Other sources of income of the corporation include sales from molasses, sweets, and fruits. The total sales revenue of the corporation has been marked to be close to Birr 175 million. Out of this, 90% comes from sales of sugar, followed by revenues from sweets and molasses.

37. The sugar industry income in Ethiopia is estimated around Birr 175 million per year. This represents 30% cf the food industry and 10% of the total industry sector. The sugar industry contributes only 2% to the gross domestic product (ESC documents).

38. However, the sugar industry makes payment to the government up to Birr 60 million per year. The share of value added of the Ethiopian sugar corporation to total manufacturing cost is 25%, which is the highest next to Textile and Fibre works (World Bank Document). The three sugar factories alone contribute 10.2% of permanent employees of the 167 public owned manufacturing industries. In terms of contributions to the government revenue, the three sugar factories alone contribute an average

*Massel's approach is explained by Melisachew as the role of technical progress in productivity change ... measured by the index of technology to productivity growth (increase of output per man hour). p. 44

of Birr 26 million per year in form of taxes, residual surplus and capital charges. This amount does not include payments made in form of excise and transaction taxes (see Table 14). However, considering all the taxes the ESC made payment of close to Birr 65 million in, 1985/86 (see Table 15).

39. In a report to the Central Committee of the WPE, President Mengistu, stated that "the Ethiopian Airlines and the Sugar Corporation productivity and profitability have not only been encouraging but have been above comparison in their performance with any developing countries in a similar economic enviornment. The Government has been obtaining annual residual surplus of Birr 56 million from this sector" [5 March 1990 (Yekatit 27, 1982 E.C.) Addis Ababa].

40. The factory sales price was Birr 0.98 per kilo in 1986/87 (1979 E.C.), and has increased to Birr 1.20-1.25 per killo (May 1990). This price includes all sales taxes. Market retail price varies according to distance from Birr 1.50-3.00 per kilo. In more than 30 years, the factory sales price has only increased by Birr 0.75, no more than 2 cents per year.

41. Sales distribution was at first done through contract with private individuals and later the industry tried to establish its own sales outlets. It is noted that prior to nationalisation, it had 8 branches and 364 sales agencies. Since 1985/86 (1978 E.C.) 76% of the sales distribution, however, is performed by the Ethiopian Domestic Distribution Corporation (EDDC), itself a public enterprise and the rest by the Sugar Corporation (ESC documents). This seems to have worked well to the satisfaction of the Ethiopian consumers who have been able to get fair share of sugar for consumption according to quota at regulated prices, through the Kebeles which have protected them from being subjugated to high middleman margins.

42. A certain quantity of sugar is sold through foreign markets, mainly to the Republic of Djibouti, while molasses are also sold on European markets. For example, in 1987/88, the quantity of foreign sugar sales was 16% of total sugar sales and about 19% of total sales revenue (ESC documents).

(v) Future Plans and Projects

43. Future projections for sugar industry development within the 10 year plan include three main project categories, the Fincha Sugar Project, Wonji/Shewa Sugar Factories expansion project, and a fifth sugar factory project.

The Fincha Sugar Factory Project

44. This project is to be accomplished in two phases to produce a total of 127,000 tons of sugar and 12,000 cubic-meters of ethanol, and develop

93,000 hectares of land in the Wollega administrative region at Hurro-Guduru Awraja on the banks of the Fincha river. The project is expected to create job opportunities for 7,000 Ethiopians eventually. The estimated cost is Birr 410 million. This project is to be the major user of the hydro-electric power at Fincha (see Table).

Fincha Sugar Factory Project

	First Phase	Second Phase	Total
Sugar Production	85,000 tons/y	42,000 tons/y	127,000 tons
Ethanol	8,000 cubic m.	4,000 cubic m.	12,000 cubic m.
Land for Cultivation	62,000 hectares	31,000 hectares	93,000 hectares
Employment Opportunity	5,000 persons	2,000 persons	7,000 persons

The implementation programme of this project was officially signed and launched on 9 June 1990.

Wonji/Shewa Factories Expansion Project

45. This project is intended to expand the existing production capability of the two factories from 80,000 tons of sugar production per year, by developing 4,000 hectares of land in addition. The project is expected to provide employment opportunities for 2,000 Ethiopians.

The Fifth Sugar Factory Project

46. This involves a pre-feasibility study to determine location and production capacity. To a large extent, this project is intended to bridge any gap between the supply of sugar provided by the old and the newly projected sugar factories and the expected demand.

47. The above three projects are expected to increase total sugar production by 300,000 tons per year and thus bring the total supply of sugar in the country to 400,000 tons per year. The expected revenue from these projects is estimated to be Birr 300 million and foreseen to cost up to 400 million Birr.

48. Other major sugar development projects include better utilisation of sugar by-products such as conversion of molasses to produce ethanol and baker's yeast. In this regard, projects are under consideration to produce 15,292 tons of ethanol, and 1125 tons of baker's yeast. The income to be generated from these projects is expected to be Birr 30 million of revenues and would save about US$13 million of foreign exchange per year. In terms of payroll it will involve 12 million Birr per year, and open employment for 170 Ethiopians.

Water Purification Project

49. Future plans include social development in the form of water purification project. The available drinking water around the Wonji-Nazareth area is water-well that is known to contain floride which has been the cause for the dental and orthopedic health problems most perennial in the Wonji community. It is now planned to build water purification plant with a capacity of 4 million cubic meters of clean water supply for the community which will provide not only clean drinking water but also will have immense effect in alleviating the health problems. The cost is estimated to be up to Birr 20 million and would open employment for 40 Ethiopians.

PERFORMANCE EVALUATION: SOCIAL, ECONOMIC AND FINANCIAL CRITERIA

(i) The ESC and its Impact on Socio-Economic Development

50. At the beginning, the sugar factories were causes for many adverse effects on the socio-economic environment around them. The period of 1951 to 1970 is known for the many ill-effects the sugar companies brought on the people by uprooting them from the land. However, in time there has been some positive contributions to the surrounding area as a result of the spillover of the sugar industry activities. Particularly since the revolution, the sugar industry has made significant contributions in the Nazareth, and Metahara area by encouraging natural resources utilization, fostering income generating activities in the community around it, stimulating rural industrial development such as the opening up of small industries and services. For example, at Wonji many maintenance and repair services, weaving and tailoring, food and agricultural enterprises and commercial bank services have been established. The sugar industry has given employment to 16,500 Ethiopians who are in turn estimated to support 60,000 dependants (ESC document).

51. In 1977, the industry made 1,500 peasants around the Wonji/Shewa to become sugar cane outgrowers on 970 hectares. The change that took place in outlook, consciousness, and standard of living was tremendous. Schools, clinics and service giving enterprises were soon set up and better houses built. The literacy rate was changed within a short period of time as every one practically came to attend literacy schools. There was new industrial and professional culture which started to take roots.

52. Training programmes in agricultural, technical and management that are run by the industry have increased the technical knowledge of surrounding area. Directly or indirectly, these training programmes have widened the horizon not only of the employees of the industry but also of all the people in the area.

53. In its endeavour to develop around 17,000 hectares of sugar plantation, the ESC contribution towards making the area free of malaria should not be overlooked.

54. Sugar byproducts like molasses serve as inputs for food and beverage products, and the sugar industry is important supplier for such enterprises. Although the sugar industry produces its own major raw material input (sugar cane), it still depends on other suppliers for sacks (bags) and other type of containers such as cartons. It also uses a lot of electricity, fuel, and water which it acquires substantially from others. It is thus, a major purchaser of these products and expends around Birr 5 million per year.

55. The sugar industry has important backward and forward linkages that have significant effects on the overall economy. It is highly tied not only to the beverage and food sub-sectors as it supplies cattle feed and materials inputs for the brewery, but is also connected with the transport sector. It is involved in the transporting of inputs it requires from different sub-sectors and areas of the country, and in the distribution of its final products to the consumers inside and outside the country.

(ii) The Labour Force

56. The labour force of the corporation numbers 16,000 (1985/86) and involves payments of upto Birr 38.1 million per year, or upto 29% of sales revenue. The Wonji employees have been in the forefront in the establishment of labour union in the country and negotiating with management for the Ethiopian workers right in the industry as early as when the industry was under foreign expatriates domination. They were highly conscious and aware of the foreign management malpractices and were the cause behind the speeding up of the management takeover by Ethiopian nationals. Today, their rights are well protected and articulated with well formulated collective agreement that provides opportunities for the industry's own remuneration schemes. Employees have many fringe benefits and social services provided by the corporation and their association.

(iii) Social Services

57. The corporation provides housing services for its employees and their families. It has 3,399 houses at Wonji/Shewa which provides shelter for 32,000 residents, while in the Metahara there are 6,553 houses that have 27,000 residents. Repair and maintenance of houses is done according to planned schedules and free water and electricity supply provided by the corporation. There is a communal recreational facility with cinema hall around the residential area. These facilities are run by the community itself but the buildings and materials expenses are covered by the corporation. Corporation employees and their residents obtain health services at the corporation clinics, polyclinics which are set-up around the plantations and factories. The corporation has its own hospital at Wonji which has 176 beds complete with doctors, nurses and dressers, equipped with x-ray, pharmacy, and small surgical unit. Mother and child care centre is also available. It is estimated that the corporation spends Birr 34 million annually on health services (ESC documents).

(iv) Training

58. When the sugar factories were first established, the biggest handicap visible was the lack of technically trained Ethiopian manpower, which made operations totally dependent on expatriate staff. As user of heavy agricultural machinery, the industry was facing extensive manpower shortage in technicians that can operate agricultural machinery. To cater for this gap within a short time, a training centre was established in 1963 in the Shewa Factory compound. The training was directed towards meeting the need for agricultural machinery operators. But slowly it expanded to include training programmes for sugar factory technicians, sugar factory machine operators, agricultural machinery operators and repair and maintenance service technicians, farm supervisers, sugar chemical work technicians (sugar-laboratory), and factory foremen and middle management personnel. At present, it has a training facility for accomodating up to 50 trainees, with fully equipped workshop. Training is given by senior expert staff of the factories which have developed experties in the field. The centre now offers various upgrading short-term training programmes and courses. It has been instrumental in the "technology assimilation and adaptability" and "technological capability build up" of the industry in the country.

(v) The Financial aspects of ESC

59. To fully appreciate the financial position of ESC one must first understand the government financial regulations under which government owned enterprises (public enterprises and public agencies) operate in Ethiopia. Proclamation 163/1979 is the financial regulation through which the government exercises control over the public enterprises financial activities. The content of the proclamation 163/1979 brings the public enterprises under close financial control of the central treasury.

60. Although the ESC is a corporate entity holding 3 sugar factories, and 3 confectionary factories, according to proclamation 163/1979 each factory, plant, or operating unit is considered a public enterprise in its own right with a state capital on which annual capital charges are payable to the government, profit taxes computed and paid to inland revenue, and residual surplus made payable to the Central Treasury. Thus, income taxes, and dividends payable to the treasury are not computed on consolidated profits of the corporation, but rather on individual plants separately. If income taxes and dividends were paid on consolidated profits, the plants/corporation will have had advantages as "considerable proportion of net earnings can be retained, and losses at loss making plants can be offset against profits of other plants to arrive at net consolidated profits of the corporation on which final taxation and dividends are payable" (Sivitter 1986, p. 19). Under the present situation corporations become mere administrative bodies only, while each enterprise (plant) is liable for taxation on its own profits.

Capital Charges

61. The Proclamation requires each public enterprise to make payments to the government on annual capital charges of 5% of state capital and reserves. This is tax deductible expense to arrive at net taxable income.

Reserves

62. The proclamation requires each enterprise to retain 10% of its net operating income (surplus) after taxes as reserves until the amount reaches 30% of the state capital.

Residual Surplus

63. The net income after taxes and reserves, which is called residual surplus, is to be paid as dividends to the treasury according to the proclamation.

64. The effect of the above provisions on the public enterprise is small retention rate of profits and excessive payments to the government in form of taxes and residual surplus which may create financial constrints on the enterprise. However, to the nation they constitute major sources of government revenue.

State Capital

65. The total capital invested in the corporation has increased by 123% since 1978. The capital of sugar corporation from the three sugar factories only has increased from Birr 82 million to Birr 184 million in 1989, (see Table 17). The Wonji sugar factory started with Birr 23 million capital at the time of establishment. With the additions of Shewa sugar factory and the Wonji sweets factory the total capital was increased to Birr 40 million, out of which 40% was foreign equity. At present the total capital is Birr 89 million and fully publicly owned.

66. Metahara was stated with Birr 32 million capital out of which 49% was of foreign equity. With continued expansion of the factory milling capacity the capital is presently Birr 49 million, and fully publicly owned (see Table 17). Relative to other corporations within the Ministry of Industry to which the sugar corporation belongs, the sugar corporation has an adequate capital base next only to the Tobacco and Matches Corporation. The adequacy of the capital base can be seen through the Debt/Equity ratio. The debt/equity ratios (current and long-term liabilities divided by capital invested) for 1984 shows for the sugar corporation to be less than 1.00 (see below), while the average for all is 2.03%:

Food	1.93
Beverage	3.33
Sugar	0.97
Textile	1.84
Leather	9.97
Printing	2.64
Metal Works	3.05
Chemicals	3.30
Cement	-
Tobacco	0.78
Overall	2.03

Source: Siviter, 1986, p.7

Reserves

67. The reserves (retained earnings) of the sugar corporation for the last 12 years are given on Table 17. They have decreased fast for a time perhaps as a result of use of internally generated funds for effecting necessary expansion and or extending more social services facilities to employees. More recently, however, there is an upward trend again in order to bring them up to 30% of capital required.

68. In the post revolutionary period the total capital and reserves of ESC has grown from Birr 63 million to Birr 194 million, or by Birr 131 million or 208%. In the last 12 years on the other hand, the growth has been from Birr 141 million to Birr 194 million or by 37%.

Assets

69. The total assets of the sugar industry excluding Addis Ketema and Asmara sweets factories has increased from Birr 167 million (1988 to Birr 284 million (1989), or by 70% (see Table 20). The increase has been especially more accentuated in the current assets than in the fixed assets during the period. The rise in total assets invested reached a peak in 1982 and has since then been decreasing. Despite the country's internal problems, the sugar industry assets have overall been showing growth.

Composition of Assets

70. The current assets represent the greater portion of total assets showing extensive activity on the top part of the balance sheet. Within the current assets, inventory represents the major component.

Liabilities

71. The total liabilities (debt) of the corporation has increased from Birr 25 million (1978) to Birr 180 million (1982), and then decreasing since to reach Birr 90 million in 1989. This up and down trend does

not indicate an unwise strategy. It rather indicates a very good use of debt finance depicting ability to borrow, settle and clear debt obligations on time, which helps to establish a very good credit worthiness standing. The increase in debt is due to current liabilities as longterm liabilities have in fact been playing less and less role until their use came to a halt beginning in 1978. Since then any substantial need for funds must be met by either current debt or equity capital. The increase in assets investments seems to have been financed then from equity capital source rather than from debt, and used more in financing current assets (Table 20).

Operating results

Sales

72. Table 21 shows summary of income statement for the last 12 years from 1978 to 1989. Sales during this period increased by 192%. From 1978 to 1979 sales increased by 118%, and from 1979 to 1989 the growth in sales was 34.9%. Sales from the sugar by-products such as molasses and other diversified activities have also been successful, depicting an upward trend as seen in Tables 11, 12 and 13. This diversification of activity in the corporation helps reduce risk by extending the sources of revenue and is important for the efficient utilisation of resources.

Cost of Sales, Operating Expenses and Net Operating Income

73. The cost of sales represents a low of 60% to a high of 79% of sales revenue in the last 12 years (Table 18), and fluctuating within the period. The operating and general expenses have increased from a low of 8.1% (1980) to a high of 21.3% of sales (1985), during the 12 years period examined, with the result that the net operating income before taxation declined from a high of 30.5% (1980) to a low of 5% (1985) of sales. On the average the cost of sales is 71%, operating and general expenses 14%, and net operating income (b/t) 15% of sales. The net operating income seems to have been declining due to increase in operating and general expenses. The tendency for the increase in operating and selling expenses may be due to increase in number of employees, employee benefits and social services. The cost of sales changed by 32% while the changes in operating expenses was by 163% confirming the effect of the increase in labour welfare and social services schemes. During the period examined sales increased by Birr 94 million while cost of sales was Birr 71 million, and operating and general expenses increased by Birr 12 million. In no year did cost of sales or operating expenses increase greater than sales.

Capital Charges, Residual Surplus and Income Taxes

74. Payments for capital charges have almost remained in the neighbourhood of Birr 7-8 million per year, while income taxes have been fluctuating with net income from a low of Birr 2 million (1978)

to as high as Birr 19 million in 1980. Likewise residual surplus payments have fluctuated from a low of Birr 3 million to a high of Birr 18 million from 1978-89 (see Table 21). On the average the sugar industry has been making payments to the government of Birr 26 million per year in form of capital charges, income taxes, and residual surplus (see Table 14). In 1980-81 only the amount paid to government was close to Birr 40 million. These amounts represent an average 22% of total sales revenue as shown in Table 16. It must be noted that the above amounts do not include other sales taxes which the industry pays in addition. In this regard it is interesting to observe Table 15, where the total contribution to government revenue could be as much as Birr 65,780 million considering all taxes.

Profitability

75. Net operating income before taxes was positive throughout with an overall average profitability of 15% margin on net sales (Table 18a). Margins have fluctuated from Birr 5 million (1978) to as high as Birr 30 million (1980). From 1978-89 profitability has grow from Birr 5 million to Birr 16 million or by 220% without any periodic loss.

76. Residual surplus payable is the balance of surplus of a profit making enterprise after taxes and transfer of 10% to general reserves, unless the reserve reaches the limit of 30% of capital in which case all surplus after tax is payable to the government. The ESC enterprises had reached their limit in terms of transfer to general reserves up to 1980 (see Table 20), and thus 100% of the surplus after taxes were payable to the government, but since then they still have been making positive transfer to their retained earnings and the balance of 90% paid to the government. Thus the operating profits are either all 100% or 90% of it paid to the government in form of taxes and residual surplus. If capital charges were added back to the Net Operating Income, the profitability margin on net sales could be 20.5% on average (see Table 18b).

Return on Invested Capital and Return on Capital Employed

77. Table 19 shows the return on invested capital (ROI) and return on capital employed (ROCE).* The return on invested capital (ROI) is the net operating income after taxes divided by invested capital. Invested capital represents equity capital. This ratio has been on average 6.2% from 1978-89 (see Table 19).

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*Invested Capital: Comprises state capital and general reserves representing the equity capital.

Capital Employed is: Composed of capital invested (equity) plus longterm liability.

78. The return on capital employed (ROCE) is 5.7% on average. These returns are definitely much higher. When capital charges are added back, the return to government equity and on total capital employed could be more than 10% (see Table 19(a).

79. The difference between ROI and ROCE results from the inclusion of longterm debt in the capital employed which depicts the overall gearing factor, being 0.5% on average (see Table 19(b).

Current Ratio

80. The liquidity ratio shows a decreasing trend from 1978 to 1989, although there is a substantially improved position taking place in between, starting in the last three years. The current ratio which started with 4.4 (1978) went down to as low as 1.3 till 1986, and since then picked up to reach 2.2 by 1989. The average ratio for the period depicts 1.8:1. A current ratio in excess of 1.5 is considered to be acceptable even in private enterprise. Studies show that in other Ethiopian Public Corporations the average has been just close to 1 and constantly falling (Sivitter, Kinfu). With an average ratio of 1.8:1 the sugar industry liquidity position has been on the strong side. But the fact that it is a heavy user of liquid assets or has a substantial investment in current assets, subjects it to liquidity problems now and then. The significant point here is that the corporation has been able to manage its liquidity problems, and efficiently operate its working capital to work itself out of the trough. This is an example of its local financial management capability. It is evident that this has been accomplished by its ability to repay its current liabilities and make its current assets grow much faster than its debt which can only emanate from positive operating income (Table 23).

81. The net current assets have overall been positive with ups and downs intermittently, but picking up to an upward trend in the last three years up to 1989 (see Table 22).

Inventory Turnover

82. This ratio computed by dividing sales or cost of sales by inventory shows rather a slow turnover, as the result has been below 2, and below 1 respectively. This could be as a result of having a large amount of inventory in stock. In addition there is the problem of including items like spare parts, supplies, containers in inventory which depresses the result. Significant improvements in liquidity position could be obtained by reduction in stock.

Debt/Equity ratio

83. Debt/equity ratio shows ability to use leverage finance relative to equity capital base without too much risk. A sound debt/equity ratio depends on circumstances such as length of loan time and repayment

conditions, and on the organisations capability to bear risk, or its borrowing capacity. It is believed that such a ratio would usually be preferred not to exceed 1.5:1. As Table 23 shows, the sugar corporation ratio has not exceeded such a limit or is within the limit, and in fact has been decreasing, increasing the "debt capacity" or ability to use more debt finance. The longterm debt is not significant relative to short-term debt. As stated earlier this ratio also shows the presence of adequate capital base in the corporation, while studies of other Ethiopian and African public enterprises show that they suffer a lot from inadequate capital base or undercapitalisation.

Asset Turnover and Non-current asset turnover

84. This ratio attempts to measure the efficiency in use of total assets, that is the amount of assets used to generate sales revenue. The total asset turnover for the sugar corporation for the period under review as shown on Table 23, is less than one, but has been showing rising trends indicating improved efficiency with increases in sales volume generated. Looking at the non-current asset turnover on the other hand, the turnover has been more than 1.14 on average for the priod, and reaching as high as 1.71 in 1989. Considering that this increase is achieved in the face of increasing investments in fixed assets, it means that the volume of sales generated has been growing at a faster rate than the increase in fixed assets investments.

APPRAISAL OF ORGANISATIONAL RELATIONSHIPS

(i) Administrative Capability

85. The corporation activity is now accomplished through two main divisions: the D/GM of Operations, and the D/GM Plan and Development division. The head office is supported by legal, internal audit, organisation and methods, and public relations services. The head office and estate operations organizational charts are as illustrated in Figure 2 and 3.

86. The corporation has been able to manage its financial resources well subject to the Ministry of Industry supervision and proclamation 163/1979 financial guidelines, which in themselves restrain public enterprise authority and autonomy. However, the ESC has been able to build harmonious working relationships with the Ministry and ONCCP. Therefore, its internal management process has not been subjected to too much interference by the government, except in price setting. This may be because it had, overtime, established a very modern and sound organisational structure manned by management cadres who are relatively well remunerated according to ESC own salary scale. The ESC has various incentive schemes, such as bonus and overtime pay. It is the enterprise that has successfully implemented the piece-rate pay for agricultural employees in Ethiopia. It is one of the few organisations in Ethiopia that has instituted modern accounting system which has been functioning

rather satisfactorily, producing timely financial information, with books of accounts duly closed and audited. The head office in turn has been careful to respect the autonomous working conditions in factories and maintaining uniformity of policy guidelines.

(ii) Research and Development Services

87. The research and development unit is a recently established unit, but it is an activity that has been going on for a long time, especially agricultural research which was being carried out at Wonji in terms of soil testing (macro and micro nutrients), and sugar cane plantation testing. Since nationalization this unit has been strengthened to be the co-ordinator of all research and experiment endeavours and made to extend researches into crop physiology, productivity improvement methods, technology choice and acquisition, irrigation schemes, and spare parts design and manufacturing. Attempts have been made to equip the unit with modern technology and man it with appropriate research staff.

Conclusions and Recommendations

88. Whereas public enterprises, especially those in Africa, are said to have been contributors to public sector deficits or causes of unacceptable levels of debt, the Ethiopian Sugar Corporation's domestic productive and management efforts have resulted in efficient resource management. The ESC has made positive contribution to the economic development of the country. Far from being the cause of actual or potential loss or heavy indebtedness, the ESC has contributed to the sustainable growth of Ethiopia.

(a) The study indicates that the sugar corporation has made remarkable growth through expansion of its capacity, utilisation of existing productive capacity and use of local capability in terms of technological adaptability and modern management skill assimilation.

(b) There has been significant increase in production and productivity in terms of areas under cultivation, quantity of sugar produced, and yield. Area under cultivation has increased from 8,174 hectares in the pre-nationalization to 16013 hectares in the post-nationalization period. Production increased from 128,000 tons per year in 1978 to 178,000 tons in 1989. The yield has proved to be better than in other international Asian sugar producing countries.

(c) The ESC has made better utilisation of resources. It has attempted diversification of activity through better utilisation of its by-products and agro-industrial production.

(d) The corporation has adequate capital base in contrast to the usual under-capitalisation phenomena that are prevalent in most public enterprises. The rate of return on investment and capital employed has been positive, and consistent.

(e) The corporation has proved itself to have sound financial management practices in terms of use of leverage. It has used debt financing wisely and to the benefit of all concerned. There is efficient working capital management.

(f) The ESC has provided extensive employment opportunities to the country, and provided important social services not only to its employees but also to the surrounding area. It has been making substantial contribution to government revenues in the form of capital charges, residual surplus and income taxes.

(g) Other previous researchers show that the ESC's financial ratios such as debt/equity, current ratio, inventory turnover, are all in line with Dunn & Bradstreet ratios of similar enterprises. The ESC financial profile thus seems to be at par with that of enterprises in similar line of activity in the industrialised countries.

89. Recent literature has witnessed debates on the role and objectives of public enterprises and the evaluation of their performance. It has been reiterated that public enterprises should be run in a self-sufficient manner so that they are able to generate surpluses which could be used for financing their modernisation and expansion, and for the nation to get a fair rate of return on the funds invested. There is no doubt of the need for quantitative parameters for evaluating their performance. In this connection the performance of public enterprises in developing countries in terms of overall economic growth and conventional economic profitability have been less than satisfactory.

90. There is widespread talk nowadays about the poor performance of public enterprises. It is argued that the public enterprises or state owned enterprises in Africa are the causes of the continent's economic failure. "Enterprise failures" or particularly "business failures" are not unique to public enterprises. They are also phenomena of any business enterprise. For this reason causes of corporate failures have been a subject of investigation under the name of "corporate failure, or industrial sickness". Attempts have been made to examine why they have failed or identify causes of their sickness so that a mechanism could be devised for corrective action. Failure of a business enterprise and industrial enterprise, be it private or public, has grevious economic consequences, as it brings loss not only to creditors and owners, but also to employees and eventually to the community or the nation. That is why it was important to develop models for predicting "business failures".

91. Privatisation has been suggested as a solution, as if private enterprise is insulated from poor economic performance or failure. Privatisation does not guarantee success, although it does offer the opportunity to go bankrupt, which the public sector does not offer "(Impact 1990/1, Global Survey of Privatisation p. 45). In some quarters "privatisation came as pragmatic response to budgetary problems". Unfortunately literature on public enterprise has hitherto only concentrated on poorly performing public enterprises with little regard to good performing public enterprises, even if they are few.

92. In this regard, the Ethiopian Sugar Corporation has been taken as one of the public enterprises that has been relatively successful. The Ethiopian Sugar Corporation as a government owned enterprise is subject to a lot of public enterprise constraints;

(a) it is a holding company type of organisation which controls plants from head office.

(b) it is subject to a long chain of command, central political command, budgetary control and government regulations, and it is wholly government-owned and controlled.

93. As can be recommended from the study, the following are some of the reasons why the ESC has operated successfully.

(a) <u>Committed and qualified management cadres</u>.

There were a few trained Ethiopian management personnel and technicians in the industry working under the oppressive foreign management control who were fighting for the overthrow of foreign control and ownership. Thus, at the time of nationalisation they took over. They were willing and determined to do their best and not less. They did, sharing their knowledge and ingenuity with each other, through strong internal training schemes, determination, and commitment. This is what led to better "technological assismilation" and continuous productivity increases.

(b) <u>Management autonomy</u>

The industry had earlier, under foreign ownership and management, built a strong and independent organisation structure on estate operations, and had gathered highly productive, conscious and competitive employees. In post-nationalisation period the autonomous management organisational structure was left to prevail to a large extent. When "proletariat ideology" began to pervade work discipline and affect productivity negatively, the government was prudent enough to leave management to deal with the problem on its own and in its own way without political interference. In turn and in due course, the ESC and its employees also came to earn the

respect of the ministry and the government. The behaviour of the enterprise exhibits effectiveness in internal decision making, framing and implementing plans, using resources, structuring organisation in man and materials and control over operations except price.

(c) Employee satisfaction

Other reasons that could have contributed to the successful performance of ESC operations could be the employee satisfaction and conducive working enviornment. The ESC has a good recruitment and promotion policy, with relatively adequate remuneration and incentive systems which have frequently been revised. The ESC has an extensive employee benefits scheme which spills over even into the surrounding community. In this respect the ESC practices have frequently been cited by the government as exemplary to be emulated by other enterprises. Employees seem satisfied with their industry working conditions. The result of this satisfaction is visible in the production results and the yield achieved.

(d) Financial discipline

In developing countries capital is the most scarce resource, and its misuse has grevious consequences not only on enterprise operations but on the national economy. Public enterprise's poor performance immediately results in heavy burdens on the national budget, thus causing what has come to be called "financial hemorrhage", instead of generating new resources as expected. It is important that prudence is exercised in capital management. Financial management is a risky affair that requires technical knowledge and skill as well as astute discipline in trade-offs. It must be noted here that use of proper accounting tools and financial information are indispensible for planning appropriate financial strategy and taking timely decision. Many studies, however, show inadequate accounting information to be the most prevalent feature of many public enterprises and parastatals in Africa.

This study shows that enterprises under the ESC have a reliable accounting information system with a variety of internal and external financial and non-financial reports. They have been able to close their accounts annually and have them audited. Part of the industry's success comes from having these financial information data and ability to use them to plan financial strategy and monitor financial activity in terms of meeting obligations on time, or in the more familiar language of finance field, in monitoring their liquidity, profitability, and solvency. In Ethiopia although the ESC acts as a holding company, each enterprise is a tax-paying entity which allows it to act with sufficient operational autonomy. The corporation in such a case becomes limited to overall policy guidelines and performing limited administrative functions. The corporation is also restrained in its control over the industry cash management. The head office must be run by levy from the plants, and it must justify its cost to continue.

The success in the working capital management efficiency, would not have been possible to accomplish had the enterprise not been able to monitor financial results on time with up-to-date financial information. Studies show that many public enterprises in Africa have failed in this respect resulting in liquidity problems due to uncsruplous indulgence in short term debt, failure to synchronise cash inflow and outflow, and possession of slow moving or dead stocks which tie-up much needed capital. The ESC entities have a good capital base unlike other public enterprises which are undercapitalised or financing their investments by debt without prudence. The financial management of each enterprise has demonstrated its ability to use financial information for monitoring financial activity, for planning financial strategy, and for maintaining necessary financial discipline. All this could not be achieved without good accounting information base and manpower skills to take independent action on time. This is what "perestroika" is all about. This is not to say that the ESC or its entities have been able to completely achieve such autonomy, but at least their behaviour seems tacitly to exhibit operations of such a millieu.

(e) Organisation Structure

Organisation of public enterprises or parastatals has been characterised as bureaucratic and subject to long chains of command which inhibit routine decisions at the operational level, especially as the structure involves plant, corporation, and supervising authority levels of hierarchy. The holding company type of organisation structure has also been criticised as not suitable structure because it is not amenable to discerning and distinguishing efficient from inefficent enterprises, and may lead to subsidising inefficient enterprises by efficient ones.

94. It is evident from this study that for public enterprises to achieve successful financial performance they should strive:

(a) to build a well trained management cadre.

(b) to create conducive working conditions and boost employee morale and satisfaction through adequate remuneration schemes and social benefits. Naturally, unless the management itself is satisfied it is not going to be the motivator of other employee morale.

(c) to establish a more autonomous enterprise operation with control over resources and decision making process.

(d) to have adequate and independent financial management capability, especially skills in debt management.

(e) to establish reliable financial information system and promote use of proper financial data for decision making.

(f) to create harmonious relationship with the supervising authority and the government, to forge an enterprise behaviour that will earn status and respect which will permit it operate in an independent autonomous manner. In short, it is a question of building an institution.

Given these factors, a public enterprise can succeed and be able to achieve more successful economic performance. Too often economic nationalism tends to hamper "management performance" and cause "technological bankruptcy" in public enterprises. The ESC seems to operate successfuly by abiding by the national political and economic policy. The influence of politics on ownership and control of private and business enterprises is an inevitable occurrence. The key to success in public enterprise operations in developing countries like Ethiopia seems to lie in the ability to maintain political boon for the enterprise. As much as a manager's leadership is essential, it is hazardous if enterprise's successful operation is totally ascribed only to the manager as a person, instead of to the "management" in the organisation as a team or as an institutional process. The ESC success seems to come not from the personal association with any particular dominant general manager's image but from the management cadres, though, definitely, there have been managers who have left their imprints on the progress of the ESC.

ETHIOPIAN SUGAR CORPORATION (ESC)

Tables

Table 1: Area Under Cultivation in Hectares

Year	Wonji	Shewa	Metehara	Total
1951/1952	2,674	-	-	2,674
1961/1962	-	3,000	-	3,000
1967/1968	-	-	2,500	2,500
1975/1980	250	1,129	6,460	7,839
Total	2,924	4,129	8,960	16,013

Table 2: Cane Crushing Capacity Per Day in Tons

Year	Wonji	Shewa	Metehara	Combined
1953/1954	750	-	-	750
1955/1956	1,000	-	-	1,000
1961/1962	-	1,000	-	2,000
1965/1966	-	1,200	-	2,200
1969/1970	-	-	1,700	3,900
1971/1972	-	-	1,900	4,100
1972/1973	-	-	2.450	4,650
1975/1976	-	-	3,000	5,200
1977/1978	1,420	1,650	-	6,070
1982/1988	-	-	5,000	8,070
Present 88/89	1,420	1,650	5,000	8,070

Table 3: Sugar Production and Productivity

Year	Workmen in Production		Man-Years in Production	Production in Tons	Productivity tons/Man-Year
	Permanent	Seasonal			
1953/1954 (1946 E.C.)	664	1,963	1,646	2,661	1.6
1957/1958 (1950 E.C.)	870	4,702	3,221	32,504	10.1
1961/1962 (1954 E.C.)	1,356	5,953	4,333	37,415	8.6
1962/1963 (1955 E.C.)	2,457	5,340	5,127	62,747	12.2
1970/1971 (1963 E.C.)	4,338	3,498	6,087	109,400	18.0
1973/1974 (1966 E.C.)	5,454	4,839	7,874	120,657	15.3
1977/1978 (1970 E.C.)	7,342	5,297	9,991	146,665	14.7
1982/1983 (1975 E.C.)	8,928	6,852	12,354	177,745	14.4
1985/1986 (1978 E.C.)	8,747	8,117	12,806	181,202	14.1
1986/1987 (1979 E.C.)	8,417	8,087	12,461	167,784	13.5
1987/1988 (1980 E.C.)	8,427	8,307	12,581	175,084	13.9
1988/1989 (1981 E.C.)	-	-	-	177,974	-
1989/1990 (1982 E.C.)					

Table 4: Sugar Production (tons)

Year	Wonji	Shewa	Metehara	Total
1954/1955 (1947 E.C.)	15,840	-	-	15,840
1962/1963 (1955 E.C.)	34,749	24,463	-	59,212
1972/1973 (1965 E.C.)	32,190	42,343	57,249	131,782
1977/1978 (1970 E.C.)	35,326	41,135	70,205	146,666
1982/1983 (1975 E.C.)	39,016	40,576	98,154	177,746
1983/1984 (1976 E.C.)	37,833	42,420	105,871	186,124
1984/1985 (1977 E.C.)	31,279	42,397	106,653	180,329
1987/1988 (1980 E.C.)	36,888	42,491	95,705	175,084
1988/1989 (1981 E.C.)	34,422	46,987	96,566	177,975

Table 5(a): Sugar Production in Tons

Year	Wonji	Shewa	Total Wonji/Shewa	Metehara	Total Wonji/Shewa/Metehara
1954 Trial	2,661	-	2,661	-	2,661
1955	15,840	-	15,840	-	15,840
1956	16,172	-	16,172	-	16,172
1957	26,050	-	26,050	-	26,050
1958	32,504	-	32,504	-	32,504
1959	35,859	-	35,859	-	35,859
1960	39,857	-	39,857	-	39,857
1961	37,588	-	37,588	-	37,588
1962	37,416	-	37,416	-	37,416
1963	34,749	24,463	59,212	-	59,212
1964	32,888	29,859	62,747	-	62,747
1965	28,605	33,094	61,698	-	61,698
1966	31,125	37,734	68,861	-	98,861
1967	35,663	41,206	76,868	-	76,868
1968	30,158	37,595	67,752	-	67,752
1969	29,914	36,286	66,199	-	66,199
1970	27,778	39,673	67,445	29,665	97,110
1971	28,409	39,837	68,246	41,188	109,434
1972	30,192	40,287	70,479	46,164	116,642
1973	32,190	42,343	74,533	57,249	131,783
1974	30,237	41,429	71,666	48,992	120,658
1975	31,337	41,505	72,842	55,797	128,640
1976	32,017	38,619	70,636	52,650	123,287
1977	32,023	38,965	70,988	53,117	124,106
1978	35,326	41,135	76,460	70,205	146,665
1979	36,650	44,267	80,917	74,418	155,336
1980	39,461	43,687	83,148	70,356	153,505
1981	38,745	44,466	83,211	70,825	154,036
1982	37,977	42,591	80,568	64,901	145,469
1983	39,015	40,576	79,591	98,154	177,745
1984	37,834	42,420	80,253	105,870	186,129
1985	31,279	42,397	73,676	106,502	180,178
1986	35,441	38,914	74,355	106,842	181,197
1987	36,424	39,933	76,358	91,426	167,784
1988	36,888	42,491	79,379	95,705	175,084
1989	34,422	46,987	81,408	96,566	177,974

Source: Upto 1986 from Melisachew Mesfin, additional data compiled from ESC documents.

Table 6: <u>An International Comparison of Sugar Yield</u> (Sugar Yield Per Unit of Cane Crushed in Per Cent)

Year	Ethiopia	India	Philippines
1950	-	9.93	11.29
1951	-	10.03	11.44
1952	-	9.57	10.82
1953	-	9.98	10.87
1954	-	10.08	11.00
1955	-	9.93	10.97
1956	-	9.51	11.21
1957	-	9.72	11.50
1958	-	10.02	11.78
1959	-	9.84	11.23
1960	12.08	9.91	10.82
1961	11.66	9.73	11.21
1962	11.18	9.77	11.21
1983	11.82	10.28	10.93
1964	11.92	10.00	10.24
1965	11.54	9.66	9.56
1966	11.51	9.70	10.56
1967	12.37	9.97	10.21
1968	11.54	9.94	10.29
1969	10.89	9.50	9.71
1970	10.79	9.33	8.99
1971	11.08	9.79	8.84
1972	11.30	10.03	9.32
1973	11.60	9.58	9.91
1974	11.75	9.34	9.38
1975	11.68	9.90	9.74
1976	11.40	10.18	9.82
1977	11.06	9.88	9.87
1978	11.33	9.60	10.36
1979	11.05	9.78	10.15
1980	11.82	9.88	-
1981	10.84	9.95	-
1982	10.59	-	-
1983	11.04	-	-
1984	11.36	-	-
1985	10.96	-	-
1986	11.31	-	-

<u>Source:</u> From Melisachew Mesfin's Technology Transfer in the Sugar Industry: The Case of Ethiopia. January, 1990, Addis Ababa.

Table 7: Molasses Production (Tons)

Year	Wonji	Shewa	Metehara	Total
1962/1963 (1955 E.C.)	9,830	-	-	9,830
1972/1973 (1965 E.C.)	10,315	12,851	25,181	48,347
1977/1978 (1970 E.C.)	11,947	12,413	27,860	52,220
1982/1983 (1975 E.C.)	12,569	11,547	40,631	61,747
1984/1985 (1977 E.C.)	11,9196	14,050	44,856	70,822
1987/1988 (1980 E.C.)	11,748	13,177	35,993	60,918
1988/89 (1981 E.C.)	10,956	13,753	35,486	60,196

Table 8: Sweets Production (Tons)

Year	Wonji	Asmara	Addis Ketema	Total
1972/1973 (1965 E.C.)	1,118	-	-	1,118
1977/1978 (1970 E.C.)	1,505	-	-	1,505
1982/1983 (1975 E.C.)	2,440	290	438	3,968
1984/1985 (1977 E.C.)	2,463	621	301	3,385
1987/1988 (1980 E.C.)	2,578	308	674	3,560
1988/1989 (1981 E.C.)	2,383	641	309	3,333

Table 9: Fruits Production (Tons)

Year	Total (Metehara)
1981/1982 (1974 E.C.)	2,574
1982/1983 (1975 E.C.)	2,383
1984/1985 (1977 E.C.)	2,863
1987/1988 (1980 E.C.)	2,688

Table 10: Revenue from Sugar Sales (000 Birr)

Year	Wonji	Metehara	Total
1974/1975	16,517	16,517	36,034
1976	37,069	25,095	62,166
1977	38,103	25,813	63,916
1978	28,252	21,179	49,431
1979	58,515	48,253	106,768
1980	71,692	47,200	118,912
1981	72,465	47,250	119,715
1982	64,878	44,025	108,903
1983	60,456	58,645	119,101
1984	68,484	83,075	151,559
1985	55,884	67,678	123,562
1986	56,853	71,327	128,180
1987	64,657	74,653	139,310
1988	63,687	66,745	130,432
1989	67,827	75,371	143,198

Source: Ministry of Industry computer print-out data.

Table 11: Revenue from Sales of Sweets in Birr

Year	Wonji Factory	Addis Ketema Factory	Asmara Factory	Total
1979/1980	-	569,887	-	569,887
1980/1981	-	575,409	-	575,409
1981/1982	-	763,657	904,744	1,658,401
1982/1983	-	717,196	1,972,722	2,689,918
1983/1984	4,747,114	643,871	1,711,763	7,102,748
1984/1985	6,419,642	641,565	2,012,130	9,073,337
1985/1986	5,244,539	643,126	2,036,246	7,923,911
1986/1987	6,590,873	646,607	2,150,897	9,388,377
1987/1988	6,742,307	648,245	2,295,916	9,686,468
1988/1989	6,231,304	651,093	2,163,677	9,046,074

Source: Compiled from ESC documents.

Table 12: Revenue from Sales of Molasses in Birr

Year	Wonji	Shewa	Metehara	Total
1983/1984	717,895	1,073,008	4,087,331	5,878,234
1984/1985	595,820	1,180,217	4,171,617	5,947,654
1985/1986	595,901	984,547	3,781,129	5,361,577
1986/1987	556,970	932,861	3,301,135	4,790,966
1987/1988	587,410	1,106,860	3,347,349	5,041,619
1988/1989	542,825	1,155,252	3,300,245	4,998,322

Source: Compiled from ESC documents.

Table 13: Total ESC Sales in Birr

	Sugar				Molasses			Sweets		Fruits	
Year	Wonji	Shewa	Metehara	Wonji	Shewa	Metehara	Wonji	Asmara	Addis Ketema	Metehara	Total
1983/1984	32,873,615	36,858,651	91,991,138	717,895	1,073,008	4,087,331	4,747,114	1,711,763	643,871	1,152,981	175,857.3
1984/1985	27,178,670	36,838,686	92,871,139	595,820	1,180,217	4,171,617	6,419,642	2,012,130	645,565	933,787	172,643.2
1985/1986	30,794,511	33,812,027	92,835,613	595,901	984,547	3,781,129	5,244,539	2,036,246	643,128	1,680,482	172,408.2
1986/1987	31,649,248	34,698,044	79,440,833	556,970	932,861	3,301,035	6,590,873	2,150,897	646,607	2,336,525	162,303.9
1987/1988	32,051,723	36,920,423	83,158,422	587,410	1,106,860	3,347,349	6,742,307	2,295,916	648,245	2,105,233	168,953.8
1988/1989	29,909,015	40,826,657	83,905,937	542,825	1,155,252	3,300,245	6,231,304	2,163,677	651,093	1,786,265	170,477.2

Source: E.S.C. documents.

Table 14: ESC Payments of Capital Charges, Taxes and Residual Surplus (in 000 Birr)

Year	Capital Charges	Taxes	Residual Surplus	Total Payments to Government	Net Operating Profit
1978	-	2,150	3,378	5,528	5,194
1979	7,090	16,050	14,273	37,413	29,811
1980	5,941	18,923	18,557	43,421	36,083
1981	7,058	16,520	16,270	39,848	31,122
1982	7,339	9,870	8,671	25,880	17,481
1983	7,382	10,180	9,967	27,529	19,129
1984	7,431	12,026	11,323	30,780	21,039
1985	7,488	4,337	4,339	16,164	6,179
1986	7,509	8,303	6,987	22,799	13,297
1987	7,567	9,484	4,327	21,378	11,690
1988	7,986	6,173	4,231	18,390	7,817
1989	7,953	9,441	9,443	26,837	15,951
Average				26,330	

Table 15: Taxes paid by ESC, 1985/1986 (1978 E.C.) (000 Birr)

Description	Metehara	Wonji Shewa	Asmara Sweets	Addis K. Sweets	Head Office	Total
Excise tax	17,577	12,149	-	-	-	29,726
Excise taxes						
Transaction taxes	4,185	2,893	4,292	(2,350)	716	7,796
Turnover tax	1,569	1,084	2,041	1,523	87	2,744
Capital charges	2,828	4,681	31	27	-	7,568
Residual surplus	4,893	2,872	411	105	-	8,282
Income Tax	5,440	3,204	497	116	-	9,257
Sur tax	-	-	0.28	136	73	211
Pension	-	-	0.07	0.14	72	72
Municipality tax	50	34	39	-	-	125
Total	36,544	26,918	987	384	949	65,780

Source: ESC documents.

Table 16: Income Taxes, Residual Surplus and Capital Charges to Sales (%)

Year	Sales Mill.	Income Taxes + Res. Surplus and Capital Charges Mill.	% of Sales
1978	49	6	12.2
1979	107	37	34.6
1980	119	43	36.1
1981	120	40	33.3
1982	109	26	23.8
1983	119	28	23.5
1984	152	31	20.4
1985	124	16	12.9
1986	128	23	18.0
1987	139	21	15.4
1988	130	18	13.8
1989	143	17	19
Average			21.9%

Table 17: ESC Capital and Reserves (in 000) Birr

	Wonji/Shoa		Matehara		Total W/S & M		Addis Ketema		Asmara		Total Sweets F.		Total ESC	
Year	Capital	Reserve	Capital	Reserve	Capital	Reserve	Capital	Reserve	Capital	Reserve	Capital	Reserve	Capital	Reserve
1978	50,400	38,366	32,000	21,045	82,400	59,411	na	na	na	na	na	na	82,400	59,411
1979	50,400	38,356	32,000	21,045	82,400	59,401	na	na	na	na	na	na	82,400	59,401
1980	50,400	38,356	32,000	21,109	82,400	59,465	484	5	na	na	484	5	82,884	59,470
1981	88,756	2,961	53,109	1,947	141,865	4,908	484	5	na	na	484	5	142,349	4,913
1982	88,756	3,636	53,109	2,139	141,865	5,775	484	14	518	na	1,002	14	142,867	5,789
1983	88,756	4,210	53,109	2,559	141,865	6,769	484	25	518	32	1,002	87	142,867	6,856
1984	88,756	4,689	53,109	3,212	141,865	7,901	484	37	518	66	1,002	103	142,867	8,004
1985	88,756	4,859	53,109	3,492	141,865	8,351	484	46	518	118	1,002	164	142,867	8,515
1987	89,209	5,680	53,109	3,232*	142,318	8,912	484	7	518	488	1,002	495	143,320	9,407
1988	89,209	5,870	53,109	3,267*	142,318	9,137	na	na	na	na	na	na	142,318	9,137
1989	89,285	6,319	94,309	3,833	183,594	10,152	na	na	na	na	na	na	183,594	10,152

*Excludes loan redemption fund of 7794

Source: Ministry of Industry data and ESC data.

Table 18: Comparison of Cost of Sales Operating Expenses and Net Operating Income to Sales (%)

	Cost of Sales to Sales	Operating Expenses to Sales	Net Operating inc. to Sales
1978	79.3	10.2	10.5
1979	59.8	12.3	27.5
1980	61.5	8.1	30.5
1981	64.7	9.3	25.9
1982	72.9	10.9	16.2
1983	72.6	11.3	16.1
1984	66.4	19.7	13.9
1985	73.7	21.3	5.0
1986	70.4	19.2	10.4
1987	79.3	15.3	8.4
1988	78.7	15.3	5.9
1989	76.8	12.1	11.1
Average	71.1	13.8	15.1%

Table 18(a): Net Operating Income and Other Income

Year	Sales Birr 000	Net Optg. Inc. Birr 000	% of Sales	Other Inc. Birr 000	Total Net Inc. b/t Birr 000
1978	49,432	5,194	10.5	334	5,528
1979	106,768	29,813	27.9	510	30,323
1980	118,912	36,083	30.3	1,399	37,482
1981	119,715	31,132	25.9	1,658	32,780
1982	108,903	17,481	16.2	1,060	18,541
1983	119,101	19,129	16.1	1,018	20,147
1984	151,559	21,039	13.9	2,310	23,349
1985	123,562	6,179	5.0	2,497	8,676
1986	128,180	13,297	10.4	1,997	15,290
1987	139,310	11,690	8.4	2,123	13,813
1988	130,430	7,817	5.9	2,587	10,404
1989	143,198	15,951	11.1	2,933	18,884
Average			15.1		

Table 18(b): Net Operating Income Plus Capital Charges to Sales(%)

Year	Net Operating Income + Capital Charges Birr 000	Sales Birr 000	%
1978	5,194	49,431	10.5
1979	36,903	106,768	34.6
1980	42,024	118,912	35.3
1981	38,190	119,715	31.9
1982	24,820	108,903	22.8
1983	26,511	119,101	22.3
1984	18,470	151,559	18.8
1985	13,667	123,562	11.1
1986	20,806	128,180	16.2
1987	19,257	139,310	13.8
1988	15,803	130,430	12.1
1989	23,904	143,198	16.7
Average			20.5

Table 19: Return on Invested Capital and return on Capital Employed, 1978-1989

Year	Net Income After Taxes	Invested Capital	ROI	Capital employed	ROCE
1978	3,378	141,811	2.4	150,827	2.2
1979	14,273	141,811	10.1	147,798	9.7
1980	18,557	141,865	13.1	148,682	12.5
1981	16,270	146,773	11.1	175,075	9.3
1982	8,671	147,640	5.9	175,194	4.9
1983	9,967	148,634	6.7	174,424	5.7
1984	11,323	149,766	7.6	167,396	6.8
1985	4,339	150,216	2.9	161,431	2.7
1986	6,987	151,358	4.6	150,059	4.7
1987	4,327	159,024	2.7	no change	2.7
1988	4,231	159,249	2.6	no change	2.6
1989	9,443	193,746	4.9	no change	4.9
Average			6.2		5.7%

ROI = Return (net income after taxes) on capital invested

Capital invested = State capital + reserves

ROCE = Return (net income after taxes) on capital employed

Capital employed = Capital invested + long-term liabilities

Table 19(a) Return on Invested Capital Including Capital Charges

Year	Net Income After Tax (residual surplus)	Capital Charges	Total	Invested Capital	ROI	ROCE
1978	3,378	na	3,378	141,811	2.4	2.2
1979	14,273	7,090	21,363	141,811	15.1	14.4
1980	18,557	5,941	24,498	141,865	17.3	16.1
1981	16,270	7,058	23,328	146,773	15.9	13.5
1982	8,671	7,339	16,010	147,640	10.8	9.1
1983	9,967	7,382	17,349	148,634	11.7	9.9
1984	11,323	7,431	18,754	149,766	12.5	11.2
1985	4,339	7,488	11,827	150,216	7.9	7.3
1986	6,987	7,509	14,496	151,358	9.6	9.7
1987	4,327	7,567	11,894	159,024	7.5	7.5
1988	4,231	7,986	12,217	159,249	7.7	7.7
1989	9,443	7,953	17,396	193,746	9.0	9.0
Average					10.6%	9.8

Table 19(b): Returns on Invested Capital and Capital Employed

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average
ROI	2.4	10.1	13.1	11.1	5.9	6.7	7.6	2.9	4.6	2.7	2.6	4.9	6.2%
ROCE	2.2	9.7	12.5	9.3	4.9	5.7	6.8	2.7	4.7	2.7	2.6	4.9	5.7%
ROI*	2.4	15.1	17.3	15.3	10.8	11.7	12.5	7.9	9.6	7.5	7.7	9.0	10.6%
ROCE*	2.2	14.4	16.5	13.3	9.1	9.9	11.2	7.3	9.7	7.5	7.7	9.0	9.8%

ROI = Return (net income after taxes) on capital invested = State capital + Reserves.

ROCE = Return (net income after taxes) on capital employed = capital invested + long-term liabilities.

ROI* = Return (net income after taxes + capital charges) on capital invested.

ROCE* = Return (net income after taxes + capital charges) on capital employed.

Table 20: ESC balance Sheet, 1978-1979 (000 Birr)

Year	CA	NCA	TA	CL	LL	TD	Cap.	Res.	Liab. & Capital
1978	72,789	94,000	167,189	16,362	9,016	25,378	82,400	59,411	167,189
1979	109,271	92,490	201,761	53,963	5,997	59,960	82,400	59,401	201,761
1980	145,772	93,286	239,058	90,376	6,817	97,193	82,400	59,465	239,058
1981	191,574	111,601	303,175	128,000	28,302	156,402	141,865	4,908	303,175
1982	210,712	118,020	328,732	153,538	27,554	181,092	141,865	5,775	328,732
1983	191,901	132,220	324,121	149,697	25,790	175,487	141,865	6,769	324,121
1984	197,741	125,632	323,373	155,977	17,630	173,607	141,865	7,901	323,373
1985	194,326	117,322	311,648	150,217	11,215	161,432	141,865	8,351	311,648
1986	209,527	110,458	319,985	164,926	3,701	168,627	142,308	9,050	319,985
1987	200,861	102,014	302,875	143,851	-	143,851	142,318	8,912*	302,875**
1988	199,168	91,337	290,505	131,256	-	131,256	142,318	9,137*	290,505**
1989	200,271	83,807	284,078	90,330	-	90,330	183,594	10,152	284,078

* Excludes 7794 Loan Reduction Fund

** Includes the 7794 Loan Reduction Fund

Table 21: ESC Income Statement, 1970-1989 (000 Birr)

Year	Sales	Cost of Sales	Optg.& Gen. Ex.	N. Op. Inc.	Income Taxes	Resi. Surp.	Capit. Charge	Total CC Tax & RS.	Total* in b/t
1978	49,431	39,203	5,034	5,194	2,150	3,378	na	5,528	5,528
1979	106,768	63,826	13,129	29,813	16,050	14,273	7,090	37,413	30,323
1980	118,912	73,146	9,683	36,083	18,923	18,557	5,941	43,421	37,482
1981	119,715	77,458	11,125	31,132	16,520	16,270	7,058	39,848	32,790
1982	108,903	79,460	11,962	17,481	9,870	8,671	7,339	25,880	18,541
1983	119,101	86,502	13,470	19,129	10,180	9,967	7,382	27,529	20,147
1984	151,559	100,669	29,851	21,039	12,026	11,323	7,431	30,780	23,349
1985	123,562	91,106	26,277	6,179	4,337	4,339	7,488	16,164	8,676
1986	128,180	90,279	24,604	13,297	8,303	6,987	7,509	22,799	15,290
1987	139,310	106,282	21,338	11,690	9,484	4,327	7,567	21,378	13,813
1988	130,430	102,643	19,970	7,817	6,173	4,231	7,986	18,390	10,404
1989	143,198	109,937	17,310	15,951	9,441	9,443	7,953	26,837	18,884

* Includes other incomes.

Table 22: Net Current Assets (Birr 000)

Year	Current Asset	Current Liability	Net Current Asset
1978	72,789	16,362	56,427
1979	109,271	53,963	55,308
1980	145,772	90,376	55,396
1981	191,674	128,100	63,474
1982	210,712	153,538	57,174
1983	191,901	149,697	42,204
1984	197,741	155,977	41,764
1985	194,326	150,217	44,109
1986	209,527	164,926	44,601
1987	200,861	143,851	57,000
1988	199,168	131,256	67,912
1989	200,271	90,330	109,941

Table 23: Selected Financial Ratios of Ethiopian Sugar Corporation (1978-1989)

	Units	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average
Current ratio														
Current assets to current liabi.	Ratio	4.45	2.02	1.61	1.50	1.37	1.28	1.28	1.29	1.27	1.40	1.52	2.22	1.7
Profit margin														
Net operating income to sales	%	10.51	27.92	30.34	25.00	16.05	16.06	13.88	5.00	10.37	8.39	5.99	11.14	15.14
Inventory to current assets	"	56.42	56.20	46.09	50.02	50.27	56.06	51.61	55.05	55.58	52.27	54.94	54.70	53.2
Inventory turnover														
Sales to inventory	Times	1.20	1.74	1.77	1.25	1.03	1.11	1.49	1.16	1.10	1.33	1.19	1.31	1.3
Cost of sales to inventory	"	0.95	1.04	1.09	0.81	0.75	0.80	0.99	0.85	0.78	1.01	0.94	1.00	0.92
Total liabilities to total assets	Ratio	0.15	0.30	0.41	0.52	0.55	0.54	0.54	0.52	0.53	0.47	0.45	0.32	0.44
Current assets to total assets	"	0.44	0.54	0.61	0.63	0.64	0.59	0.61	0.62	0.65	0.66	0.69	0.70	0.62
Current liabilities to total liabi.	"	0.64	0.90	0.93	0.82	0.85	0.85	0.90	0.93	0.98	1.00	1.00	1.00	0.90
Long-term liabilities to total liabi.	"	0.36	0.10	0.07	0.18	0.15	0.15	0.10	0.07	0.02	-	-	-	0.10
Debt to equity														
Total liabilities to net worth	"	0.18	0.42	0.68	1.07	1.23	1.18	1.16	1.07	1.11	0.95	0.87	0.47	0.87
State capital to total assets	"	0.49	0.41	0.34	0.47	0.43	0.44	0.44	0.46	0.44	0.47	0.49	0.65	0.46
General reserve to total assets	"	0.36	0.29	0.25	0.97	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.10
Equity to total assets	"	0.65	0.70	0.59	0.48	0.45	0.46	0.46	0.48	0.47	0.50	0.52	0.68	0.55
Residual surplus to total assets	"	0.02	0.07	0.08	0.05	0.03	0.03	0.04	0.01	0.02	0.01	0.01	0.03	0.03
Net operating income to total assets	"	0.03	0.15	0.15	0.10	0.05	0.06	0.07	0.02	0.04	0.04	0.03	0.07	0.07
Net operating income plus capital charges to total assets	"	0.03	0.18	0.18	0.13	0.08	0.08	0.09	0.04	0.07	0.06	0.05	0.08	0.09
Sales to total assets	Times	0.30	0.53	0.50	0.39	0.33	0.37	0.47	0.40	0.40	0.46	0.45	0.50	0.43
Fixed assets turnover														
Sales to non-current assets	"	0.52	1.	1.27	1.07	0.92	0.90	1.21	1.05	1.18	1.37	1.43	1.71	1.15

Table 24: Profile of Permanent Employees of Ethiopian Sugar Corporation in 1988/1989

	Professional			Semi Professional			9-12 Grades			Below Grade 8			Grade Total		
	M	F	Total	M	F	Total	M	F	Total	M	F	Total	F	M	Total
Head Office	37	3	40	13	6	19	38	30	68	17	0	17	105	39	144
Wonji/Shoa	65	5	70	70	8	78	574	50	624	3,450	132	3,582	4,159	195	4,354
Metehara	54	1	55	159	9	168	561	60	621	3,242	50	3,292	4,016	120	4,136
Grand Total	156	9	165	242	23	265	1,173	140	1,313	6,709	182	6,891	8,280	354	8,634

Source: E.S.C. Documents entitled

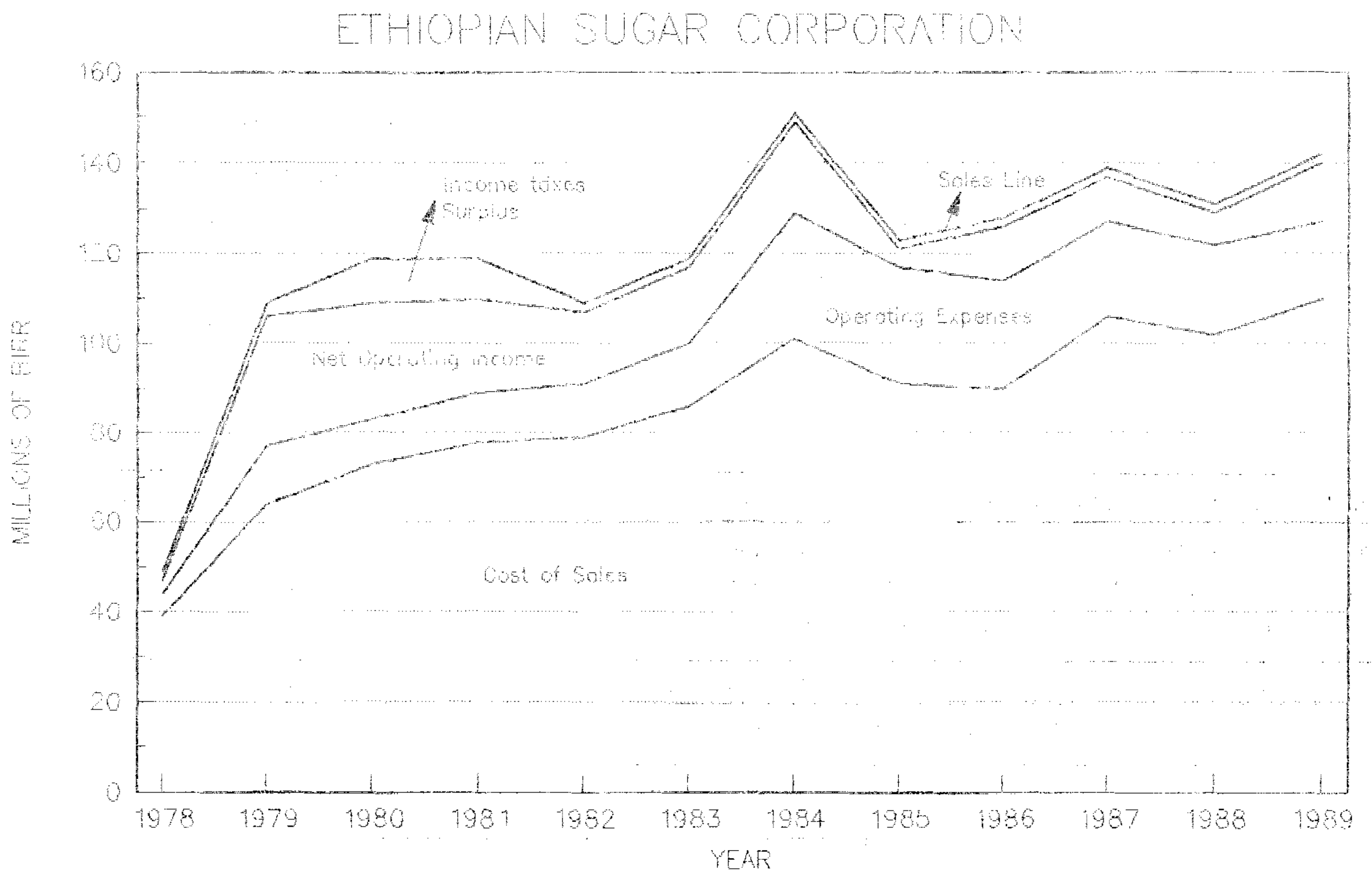
(i) Plan of the Head Office for the budget year 1990/1911

(ii) Plan of the Wonji Sugar Factory for the budget year 1990/1991

(iii) Plan of the Metehara Sugar Factory for the budget year 1990/1991

Professional = BA degree and above.

Semi-professional = Diploma holders and technical school graduates.



ETHIOPIAN SUGAR CORPORATION
MILLIONS OF BIRR
0
20
40
60
80
100
120
140
160
Income taxes
Surplus
Sales Line
Operating Expenses
Net Operating income
Cost of Sales
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
YEAR

Figure 1: Historical Sketch of the Ethiopian Sugar Industry

1950/1951 GC (1943 EC)	Agreement between Ethiopian government and Dutch Company Haldeslvereeniging Amsterdam (HVA) to develop and operate sugar factory at Wonji plain in the upper Awash basin. Exclusive right given to the company over a radius of 160 kms.
1952/1953 GC (1946 EC)	The first Wonji Sugar Factory established with an initial cane crusing capacity of 750 tons per day (tcd), later expanded to reach 1400.
1961/1962 GC (1954 EC)	Name changed into HVA-Ethiopia. Expanded operations to establish Shoa Sugar Factory with an initial capacity of 1000, Desta Sweets Factory in Wonji, tea plantation at Keffa and fruit growing and cattle breeding projects at Wonji were also launched.
1969/1970 GC (1962 EC)	Established Metehara Sugar Factory at 100 kms from Wonji in the middle of Awash Valley with a capacity of 2000.
1974/1975 GC (1964 EC)	HVa's share reduced to one third of total capital and later on HVA-Ethiopia and its subsidiaries were all nationalized.
1977/1978 GC (1970 EC)	Ethiopian Sugar Corporation was established to manage HVA-Ethiopia on behalf of the Government with legal notice 58/1978.
1980/1981 GC (1973 EC)	HVA-Ethiopia ownership was fully taken over by the Government and the Ethiopian Sugar Corporation became wholly Government owned public enterprise with Birr 200,000 capital ceiling. Abadir Agricultural Development Project (oranges and grapes) were integrated into the corporation's administration. Addis Ketema Sweets Factory and Asmara Sweets Factory were brought under the corporations administration
Projects within 10 year plan 1988	Fincha Sugar Factory Project. To produce a total of 127,000 tons of sugar and 12,000 cubic metres of ethanol and develop 93,000 to hectares of land with a 4,000 tcd sugar factory in two phases; expected to open employment for 7,000 Ethiopians and estimated to cost Birr 410,000.
	Shoa/Wonji factories expansion project. To bring the two factories' production from 80,000 to 120,000 tcd. Develop 4,000 hectares of land and create job opportunities for 2,000. Estimated cost is Birr 160 million.
	Fifth Sugar Factory Project. Conduct feasibility study as to location and determination of production capacity to meet any deficiency between supply from existing capacity and demand.

E.S.C.
Head Office Organization Chart

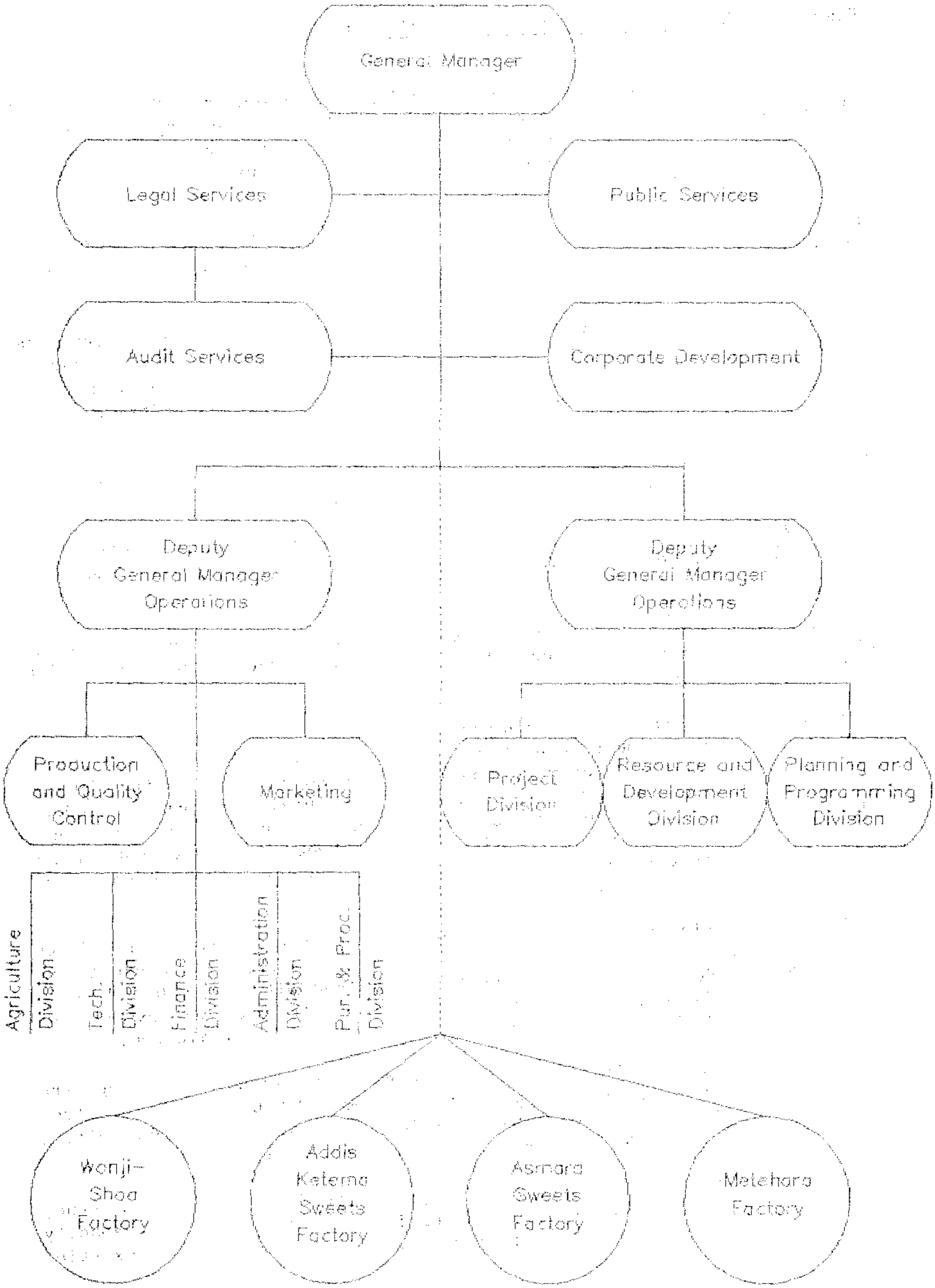
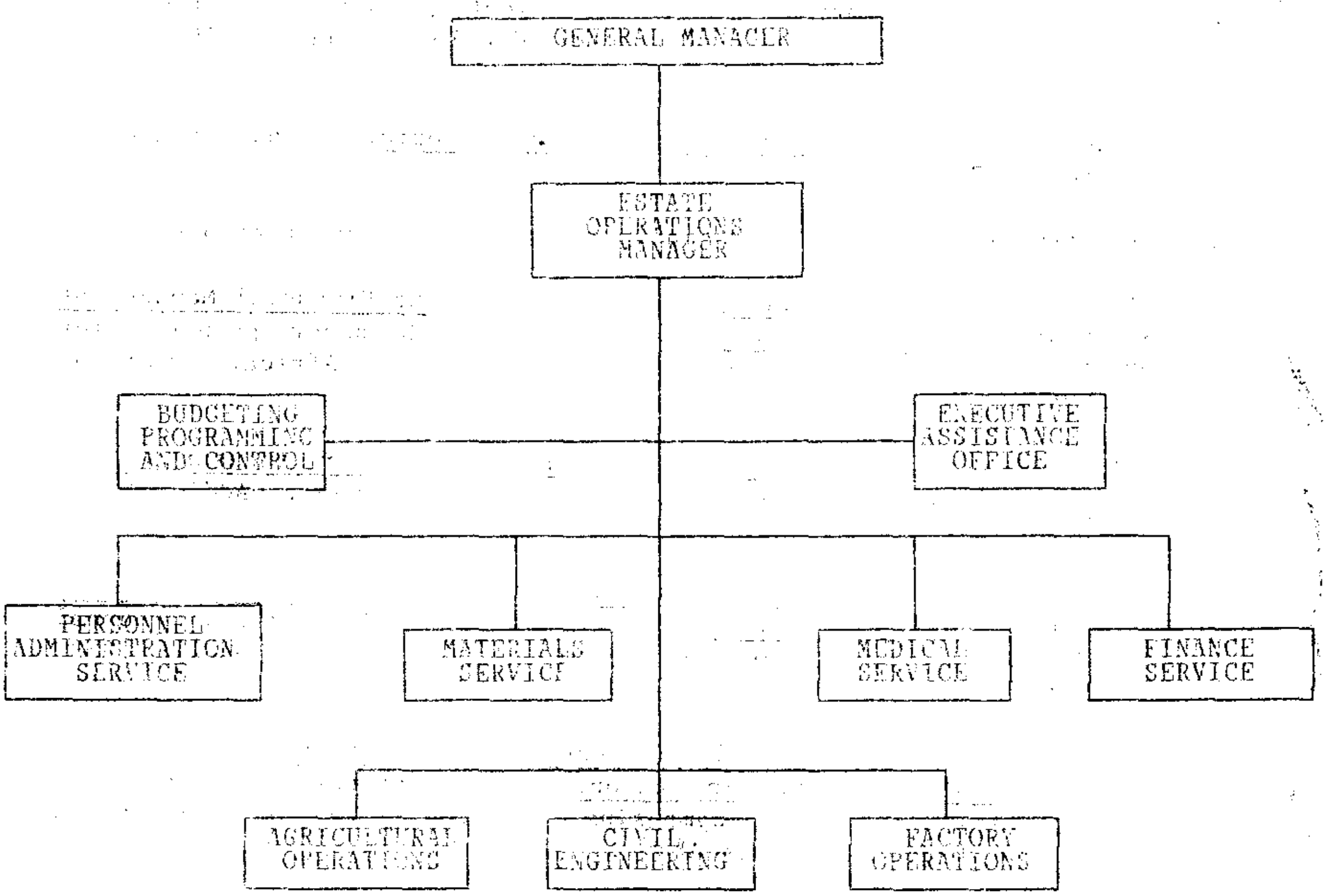


Figure 3:

E.S.C.
ESTATE OPERATIONS ORGANIZATION CHART



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II THE NATIONAL DEVELOPMENT CORPORATION (NDC): TANZANIA

INTRODUCTION

95. There are more than four hundred public enterprises in Tanzania today. None of these public enterprises epitomizes and captures the rich history of PE in Tanzania than the National Development Corporation (NDC). Not only was its predecessor, the Tanganyika Development Corporation (TDC) the second public enterprise to be set up by the post-colonial government, but more importantly, the National Development Corporation would later be charged with the overwhelming mission of spearheading socialist construction in Tanzania. Also of the public enterprises now operating in Tanzania, at least half were conceived, or at one time or another managed by the National Development Corporation. Of the chief executives of Tanzanian leading parastatals and even private companies today, at least one half learned their trade at the National Development Corporation. There has not been a Cabinet since 1967 in which none of its members had worked at the National Development Corporation.

96. Finally but for this study very importantly, the National Development Corporation is one of a few wholly state owned corporations that has never made a loss. Since its inception in 1965, the corporation has always been in the black. The corporation's history is, therefore, long and one from which lessons can be learned. This study tries as much as is possible to capture this history. For this history to be fully appreciated, however, it needs to be placed within the context of the socio-economic environment at the time of the organizations' formation. Four factors are especially relevant. First, the Tanzanian economy on the morrow of independence was highly dependent. It was also predominantly agricultural. 57 per cent of the country's exports were provided by three agricultural products.[1/] Agriculture together with livestock, forestry products, hunting and fishing, formed over 60 per cent of GNP. Also over ninety per cent of the population was rural. Secondly, trade and commerce both domestic and international, was dominated by foreign concerns. The same was true of commerce. Thirdly, Tanzania was also dependent on Kenya in the East African region. International companies set up offices in Kenya and then opened branches in Tanzania. More importantly, manufacturing industries were set up in Kenya to produce for the entire East African market (which also included Uganda, besides Kenya and Tanzania). Consequently, the Tanzanian economy was dependent on Kenya even for light industrial products. During the last three years before independence in 1961, 80 per cent of Tanzania's inter-East African exports were made up of food, crude materials and animal and vegetable oils. 60 per cent of her imports consisted of beverages, tobacco, and manufactures.[2/] Both TDC and later NDC were supposed to address some of these factors as will be seen shortly.

97. TDC and NDC's mission and objectives are addressed in section two and three respectively. Section four deals with corporate strategies and operations. Attention then turns to the assessment of quantitative and qualitative performance in section five. In this section, particular attention is paid to financial profitability. Section six addresses organizational relations and various parts of the managerial management system including the board of directors, the corporate management, and relationships with the government. Several recommendations for the future are put forward in the seventh section.

ENTERPRISE MISSION

98. The NDC was originally established by Act of Parliament in July, 1962, as the Tanganyika Development Corporation (TDC). According to Arthur D. Little, Inc. who were the project consultants, the corporation was to "aid small (especially African) operations; evidence interest and good faith to private capital; and support ventures that promise unusual benefit to the country but that provide inadequate profits to support private investment."[3] The corporation was also to be a key component in a package of policies geared to attracting foreign investments into Tanganyika. This package includes tax incentives, guarantees to foreign investors against nationalization, and the establishment of industrial estates, among others.[4]

99. The local leadership in Tanganyika supported this idea and a bill seeking to set up a Tanganyika Development Corporation (TDC) was introduced in parliament on June 5, 1962 and passed unopposed.[5] According to its establishment act, the function of the TDC was to "facilitate and promote the economic development of Tanganyika".[6] It was to "use its best endeavours to ensure that its business as a whole is carried on at a net profit."[7] The act was brought into force by Government notice No. 63 of February 1,1963, and the first meeting of the board of directors was held two months later.[8]

100. The above mission, however, was soon regarded as inadequate. The corporation was initially conceived as playing a catalyst role in attracting private investments into Tanganyika and fusing them into viable concerns.[9] According to the Minister of Commerce and Industry, TDC was to play the role of "assisting projects on behalf of government; encourage investment in industrial and other projects" among other things.[10]

101. According to the Arthur D. Little consultants, capital available to TDC was to be divided into three parts: "Fund A, to be used for loans to small business firms... Fund B to provide high risk or "soft term" financing to projects of critical importance to the economy..... and funds to sustain participation in a Joint Development company to provide financing for commercially sound ventures."[11] In short, TDC was to play the role of a non-bank financial intermediary through the provision of loans and the like.[12] In playing that role, TDC was to run on "a commercial line" at a "net profit".

102. Soon, however, the government began to give priority to other issues. A five year development plan was drawn up. This plan incorporated an aggressive industrialization package resulting from the Kampala Agreement on Industrial Allocation which was aimed at restructuring Tanzania's satellite relationship with Kenya within the East African Community. A "small" Tanganyika Development Corporation could not successfully push or sustain this new industrial strategy.13/ The government now required a corporation which would become a "very powerful force in the promotion of economic development."14/ The Tanganyika Development Corporation was simply ill-equipped to play this role.

103. Secondly and in related fashion, the Tanganyika Development Corporation had been conceived as an organ for the promotion and development of indigenous (private) capitalism partly through participation in joint ventures. State equity ownership in and of itself was not considered an important objective. The Arthus D. Little consultants thought TDC would indeed draw its capital from "possible sale of some of the present industrial holdings of the government."15/

104. Soon, the government pushed not only for indigenous participation but for state participation as well. The priority also changed from mere participation to "control." On September 5, 1963 for example, TDC board members were informed of an order by a Minister directing TDC to purchase 51 percent of the International Trading Association of Tanzania (INTRATA). The "commercial line" and "net profit" principle was not sacrosanct either. As early as 1962 the minister had said there may well be cases too where an investment should be promoted not because it will yield a very fine commercial return, but because the investment is in some way, essential to our development". Also the government did not mince words in letting the Tanganyika Development Corporation know what they wanted of its board of directors, objections to "political interference" notwithstanding.18/

105. In any case the government decided that major surgery for the Tanganyika Development Corporation was needed. On August 14, 1964, the Tanganyika Development Corporation general manager revealed to the board that he had been in discussion with the French-led directorate of development planning and that he had been summoned to see President Nyerere the day before, regarding the future of the Tanganyika Development Corporation. He revealed that draft proposals then under consideration would, if implemented, generally result in the Tanganyika Development Corporation being concerned only with state projects and those of doubtful commercial viability.19/ The general manager would not serve under such circumstances and tendered his resignation effective as of January 1, 1965, on which date the Tanganyika Development Corporation was reconstituted and reborn as National Development Corporation.

106. Consequently, there was a fundamental shift in the perceived mission of the organization which was reflected in the act passed in December 1964 to reconstruct and change TDC into NDC. It is true as Mwapachu

emphasizes that the First Five-Year Plan (FFYP) maintained that "the main thrust in industrial investment was to come from private investment."[20/] At this point the government had not yet decided to take on private, especially international, capital: that was to wait until 1969. Yet, at the same time it is also true that President Nyerere did describe "the role of the public sector" as basically that of "filling gaps left by private investments."[21/] What Mwapachu and others have missed is the subtle change from encouraging and assisting private investments, to filling gaps left by these very same private investors. "Filling gaps" entailed a change in the role of Tanganyika Development Corporation from being merely a catalyst -- as originally conceived -- to also being an injector.[22/] In addition to enticing other investors into the economy, National Development Corporation was to inject substantial amounts of capital into that economy, manage its investments properly, reap profits from dividends and interest, as well as reinvest and expand the stake of the state in the economy. TDC management clung to the statutorily intended enterprise mission while the thinking of government on the matter changed drastically as discussed above. Government wanted TDC to be bigger and do more, while TDC's management clung to the original mission and the criteria of profitability. They kept "dragging on with projects" as it will be shown below. The government then resorted to giving orders to TDC management which further increased the distance between the two sides. Finally, government decided to "reconstruct" TDC into NDC, at which point the General Manager resigned. Between 1965 and 1967, NDC's perceived mission coincided with its statutorily intended mission as well as the actual mission.

107. To carry out these expanded functions, the National Development Corporation was to put on two hats: first, the corporation had to be a financial intermediary or "the investing agency of the government" as its second general manager put it;[23/] the National Development Corporation operated on terms of majority equity ownership. Secondly, the National Development Corporation had another hat. It also assumed the responsibility for managing those investments. It, therefore, effectively became a holding corporation presiding over the numerous subsidiaries and associate companies, a consequence that followed in part from its role as government investing agency.

108. The Arusha Declaration of 1967 brought a further change in the mission of the organization. President Nyerere described the National Development Corporation as as "a body established by Government, owned by Government, with the sole purpose of securing for the people of this country maximum economic development. The National Development Corporation is not only the Government investor; it is also a socialist organization, for it is the people's institution of economic ownership and expansion. This does not mean that the National Development Corporation is, or should be, sole owner of undertakings in which it participates. Its job is to promote maximum development, and to use its own resources to achieve the greatest possible growth in our economy."[24/] The National Development Corporation was now charged with the primary responsibility of establishing Tanzania's industrial base on behalf of Government, building a self-reliant economy, and spearheading socialist construction.

109. Yet more changes in the mission of the National Development Corporation took place in 1969. The National Development Corporation's mandate was now restricted to the promotion of the development of manufacturing, processing and mining industries. The corporation could "conduct or engage in the business of manufacturers, processors, producers, packers, craftsmen, engineers, assemblers, tanners, brewers, millers, and miners.[25] Thereafter, the corporation's mission was continuously whittled down. Between 1971 and 1974, responsibility for the wood-based industry, cashew nut, mining, textiles, and small scale industrialization were all removed from the National Development Corporation. Between 1976 and 1981, the Corporation's mission was narrowed down further by the transfer of responsibility for paper associated industries, leather associated industries, cement manufacturing, chemical industry, beer brewing, cigarette making and coffee curing to other public enterprises. From the early eighties onwards, the National Development Corporation's mission has consisted in the establishment and development of the pulp and paper industry, and iron and steel industries while concentrating on metal works and engineering sector.

CORPORATE OBJECTIVES

110. NDC's corporate objectives kept changing in line with changes in her mission and the resulting new challenges from the environment. NDC's objectives in the years following the change from TDC were the maximization of private investment, consolidation of the inherited portfolio, encouragement of innovation, the engineering of growth, and the maximization of profits. The years following the Arusha Declaration in 1967 were dominated by the objective of absorbing and digesting the new companies acquired through nationalizations. These included Tanzania Breweries, Kilimanjaro Breweries, British-American Tobacco (T), Bata Shoe Company, Tanzania Metal Box Company, Tanganyika Extract Company, and Tanzania Portland Cement Company. All these companies were placed under NDC by government. NDC had to negotiate with former owners acceptable compensation for their shares, arrange the financing of the acquisitions, arrange the management of these firms, and ensure their integration into the now huge group of companies.

111. Project development also began to feature prominently in NDC corporate objectives. It must also be mentioned that an informal objective also became increasingly important for the management of NDC, especially its general management. This was the building of NDC into a huge business conglomerate and a power house in Tanzanian politics. Following the onset of the policy of hiving-off parts of the National Development corporation as autonomous organizations or parts of other organizations in 1969, a major concern of NDC became in-house reorganization to minimize the effects of hive-offs, and foster project development and subsidiary creation to compensate for lost projects and subsidiaries.

112. Following the appointment of a new General Manager in 1974, issues of tight cost control at headquarters; aggressive programming to improve the liquidity of the group companies; reduction of reliance upon bank overdrafts; declaring and paying increased dividends assumed prominence. So did the need to retain adequate cash resources. The maximization of profit remained on the agenda.

113. Further extensive hive-offs between 1976 and 1980 which were in their later stage simultaneous with the beginning of the economic crisis in the country resulted yet in a radical shift in corporate objectives. Major objectives became the combating of disruption of operations caused by the hive-offs. Also, re-alignment of activities became a priority. So was the need for consolidation, reorganization and replanning. Relatedly, problems caused by inflation and the general down-turn of the economy including hitches in items such as, transportation, raw materials procurement and foreign exchange availability resulted in several new objectives for the National Development Corporation. There was a move to concentrate on foreign exchange generating companies. Commenting on the impact of the Economic Recovery Programme (ERP), NDC's Managing Director says, "the foreign exchange retention scheme continued to prove a blessing to those of our companies which could export some of their products".26/ The manufacture of spare parts locally also became a priority. The attainment of self-reliance in this area became an important corporate objective. In the meantime, as the above problems continued to bite expecially as the problematic eighties came along, and capacity utilization in many of the National Development Corporations's subsidiaries continued to decline, the rehabilitation or consolidation of these companies also assumed importance.

STRATEGIES AND OPERATIONS

114. Few records remain of TDC's two-year life span. The available documentation paints a picture of a very troubled organization. Problems arose regarding two related issues. On the one hand, the organization had a serious personnel problem at the very top from the outset. Its first chairman, appointed at the suggestion of President Nyerere, was suspended six months later and eventually fired. Efforts to secure a chief executive from the Uganda Development Corporation also failed and when one did arrive, he resigned six months later (more about this below).27/ In the meantime, G.B. Freeman had been appointed as TDC's first acting general manager beginning March, 1963. A few months later, he also was let go since according to one senior official "he was just dragging on with projects."28/

115. On the other hand, according to the policy framework designed by the departing colonialists with foreign consultants and World Bank input, the corporation was initially conceived as playing a catalyst role in attracting private investments into Tanganyika and fusing them into viable concerns.29/ According to the Minister of Commerce and Industry, TDC was to play the role of "assisting projects on behalf of government; encourage investment in industrial and other projects" among other

things.[30/] NDC's investment function went through two stages between 1965 and 1969. Beginning in 1965 NDC went about its business in the old NDC fashion by the solicitation of[31/] private investment (especially foreign investment, which at this point was not yet under attack). Enticements employed, included equity, loans and project information. NDC's role in project preparation was "essentially passive" as Clark put it.[32/] Most projects initiated during this period were joint ventures, which it needs to be emphasized, was in line with the government's wishes.

116. Six months after NDC was set up, President Nyerere declared that its main function was to "promote maximum development. By investing less than Pound Sterling (PS) 2 million" Nyerere continued, "the NDC will have promoted investments in Tanzania worth PS 8 million," NDC was to play a catalyst role par excellence, though, as Nyerere put it, NDC was not and did not have to be "sole owner of what it participates in."[33/] Finally during this time, a good reflection of the government's future agenda and perceived role for NDC was its decision to integrate the ruling party--TANU's economic wing, the Mwananchi Development Corporation, into NDC. Henceforth, the government had only NDC as the implementing organ of its economic agenda.[34/]

117. Soon thereafter the ruling coalition, especially President Nyerere, "reacted strongly against indiscriminate maximization of private investment."[35/] In brief, it did not enhance the government's control. In January 1966 at an extraordinary meeting, the NDC board was informed of the decision of the economic committee of the cabinet that NDC should "give more emphasis to the establishment of a state industrial sector by insisting upon taking no less than 50% of the equity in projects in which it participated."[36/] A year later, this arrangement was formalized in the Arusha Declaration; which defined three main sectors of the economy, namely, wholly owned enterprises, state-controlled enterprises, and an "open" sector. Henceforth NDC was to be "primarily concerned with the promotion of those projects of sufficient size and importance to the economy to warrant the Government taking a major share holding."[37/]

118. This had two related implications. First, acquiring a controlling or majority share ownership became a guiding principle. "This implies that almost all of NDC's investment in the future will be made in the equity of newly established companies."[38/] Not surprisingly, NDC's investment in subsidiaries in which it had 50 percent equity or more increased from 75 percent of total investment in 1966 to 84.5 percent in 1967 (by 1967 it was still around 83.1 percent); conversely while investment in subsidiaries in which it had less than 50 percent equity fell from 24 percent of total investment in 1966 to 13 percent in 1967 and 11 percent in 1968.[39/] By 1968, out of NDC's investment portfolio of Shs.207 million, Shs.187 million or 90.3 percent was in equity while only Shs.20 million or 9.6 percent was in loans.[40/] The requirement for majority ownership and the fact that the state budget was the major source of funds soon created a lot of pressure on the budget. NDC's insatiable demands for investment funds could not be met. Ironically, the state ignored NDC's management plea to change the above requirement.

119. With the Arusha Declaration, the methods of solicitation, enticement and amalgamation used in building up NDC's investment portfolio were now complemented by nationalization. These nationalizations contributed immensely to a dramatic increase in NDC's investment from Shs.117 million in 1966 to Shs.211 million in 1967, as shown in Table 3.[41] Its subsidiary companies increased from 19 to 42 between 1966 and 1967. By the end of this period in 1969, NDC had been transformed into something which one observer said, resembled an American conglomerate.[42] The corporation's subsidiary and associated companies total investments and known investments were an estimated Shs.1,273 million.[43] It had control of most government assets in manufacturing, tourism, food processing plants and agriculture, with the exceptions being the oil refinery and sisal estates. It also accounted for more than half of parastatal investment in new firms.[44]

120. The above was in part a consequence of NDC's new aggressiveness as the government's chief industrial development and control organ. Following the Declaration, joint agreements were signed to establish new parastatals.[45] Also NDC's function changed from one of merely approving projects to one of initiation and design. As a cause but also a consequence, NDC's expenditure on projects in development stage shot up from Shs.0.3 million in 1965 to Shs.32 million in 1969.[46] The technical-economic staff of NDC's Development (later Research and Development) Department expanded from about 8 people in 1967 to more than 30 by 1969.[47] Project initiation represented a deepening of NDC's "broker" role and soon contributed to the eclipse of NDC's other "hat," the managerial one as will be seen shortly. Finally, as demonstrated by Binhammer,[48] many of NDC's activities were financed by the state through share holding, grants, and the securance of long-term loans. Also the internally generated funds came from prior established companies which were transferred to NDC by government. The National Development corporation was less bankrolled than it was "state-rolled" during this period.

121. NDC's management function consisted in the management of its headquarters operations and establishment, along with the supervision and control of its subsidiary companies, in which its equity holdings were 51 percent or more. NDC was not managerially responsible for the running of companies in which it held 50 percent or less of equity. These were the so-called associated companies.

122. As NDC's investments dramatically expanded after the Arusha declaration, so did the number of its subsidiary and associate companies, a phenomenon that made NDC a very heterogenous corporation as already noted. The above had several implications. First, given the dearth of qualified manpower, NDC had a hard time finding the right people to staff its rapidly expanding divisions at headquarters. Consequently, throughout this period almost all of NDC's senior personnel at its headquarters were expatriates. In addition, NDC turned to foreign personnel to manage its ever expanding portfolio of subsidiaries. As Table 5 shows, out of NDC's 32 subsidiary companies in January 1969, 25 were run through a management agreement and/or had expatriate management.

123. By 1969, NDC had assumed one very important clear feature. The corporation's two "hats" mentioned earlier were by now explicitly visible. Said Mackinsey Consultants in 1969, "the NDC has developed a distinctive dual character...it serves the functions of both a development finance institution and a holding company."49/ Third and in view of the above not surprisingly, NDC invested a great deal of energy into the launching of new projects and companies.

124. The National Development Corporation reacted very decisively to the government's 1969 measures. The corporation mounted an investment (business) response. First, there was a renewed emphasis on the investment-broker role of NDC. If anything, this "hat" became even more important because it was the chief reason that NDC continued to receive a substantial share of the development budget, which amounted to Shs.780 million during the Second Five-Year Plan or 32 percent of state parastatal investment. Thus as shown in Table 3, while the corporation lost 36 percent of its total investment through hive-offs in 1969, it recouped about 45 percent of the loss through new investments. The following year, it added 87 million to its holdings, an amount which increased with an addition of 130 million in new investments in 1971. Thus between 1969 and 1972, the corporation almost doubled its investments, hive-offs notwithstanding.

125. It also did not hurt that the corporation continued to be the custodian of state equity in such profitable subsidiaries as Tanzania Breweries and Tanzania Cigarette Company until 1977. These subsidiaries generated profits which kept the corporation in the black. Relatedly, their almost automatic profitability freed the corporation from working hard in managing them, thus freeing it to concentrate on subsidiary creation.

126. For this and other reasons common to parastatals which are not discussed here, the corporation also responded to the government measures of 1969 by increasing its creation of subsidiaries. The more the state hived-off, the more subsidiaries NDC started or took on. The corporation's three year plan 1973-75 plan, for example, was premised on the injection of Shs.140 million by the state into the corporation for expansion and new projects partly through the take-over of private concerns. Commenting on the document a ministry official said "The plan appears to be largely a promotional document aimed at obtaining a substantial government equity.... Takeovers (of private concerns) "should occur when it is clear that NDC can operate the enterprise efficiently."50/

127. Thirdly, at the corporation's headquarters, the operations department which had been strengthened in the 1969 re-organization in order to more closely monitor the subsidiary and associate companies, was increasingly weakened as more subsidiaries were hived-off and as NDC realized that management of its subsidiaries would not be key to its survival.51/

128. The 1977 hive-offs were the last straw. The NDC board accepted management's recommendation that the operations department be merged with the research and development department. From then on, decided the board, NDC was to "mainly concentrate on development work leaving operational aspects to the production units."[52] The resulting industrial development department which was soon called "the hub and nerve center of the NDC business"[53] was characterized by an emphasis on project development rather than monitoring operations of subsidiaries (about which more will be said presently). Within the area of project development, more emphasis was placed on "implementation of projects." While research, investigations and feasibility studies were "watered down." Detailed studies were made before preliminary studies which resulted in "expensive studies and undetected over-designs."[54] The management of projects under implementation, however, was poor. There was no planning, supervisory control was lacking, such that "projects were implemented without work plans and proper cash flow schedules."[55] Eventually this led to the creation of under-capitalized subsidiaries which soon encountered operational problems. However, it increased the size of the parastatal sector and productive capacity installation.

129. Fourth, with the above, NDC's loose and at times non-existent control of its subsidiary and associate companies continued which inevitably led to further cases of mismanagement. Again, NDC increasingly de-emphasized effective and efficient management of its group of companies or its holding corporation function. The department concerned with this function was gradually phased out at NDC headquarters. "The role of the NDC" said a sub-committee of its board "should remain foremost that of the entrepreneur, that is, developer and promoter of new investments."[56] Moreover, the NDC relationship with its subsidiary and associate companies was further characterized by the continuation of what NDC itself called "Dependence upon expatriate managers" evident in Table 5. These managers were "not training Tanzanian deputies"[57] as stipulated in their contracts.

130. Also, some of the expatriate managers disputed NDC authority over the subsidiaries and made their relationship contentious and conflictual[58]. Some of the subsidiaries were also mismanaged. In 1976, the corporation's directors of planning and finance mentioned "internal inefficiencies in financial management," lower production capacity utilization "than could reasonably be expected. Investment in current assets (debtors and stocks) much higher than prudent managers should allow... little apparent effort to control costs... (and) more than 75% companies relying on overdraft facilities."[59]

131. The group of mismanaged subsidiaries included not only those like the notoriously unprofitable Tanzania Fertilizer Company, but also the likes of the quite profitable Tanzania Breweries Limited (TBL) and Tanzania Cigarette Company (TCC). In 1976 for example, the NDC general manager called TBL "a sick company"; two years later his successor said "TBL is in a poor state."[60] Similarly, considerable resources were drained out of the subsidiaries by management agents and by the private sector. NDC chairman and managing director, Kilewo, spoke of the "looting" of Tanzania Breweries.[61]

132. In addition NDC, like other holding corporations, charged its subsidiaries a management fee as a percentage of net sales turnover (net of sales tax and returns).62/ Unfortunately, this practice encouraged the NDC management to regard such fees as a source of income as evident in Table 1 and 2, when in fact it should have been regarded as a cost to the group.63/ Consequently, instead of trying to curb the practice, the corporation had an interest in perpetuating it. "Income" from this source was not negligible. As can be seen in Table 1, it hovered around one fourth and one fifth of the corporation's income between 1976 and 1984. It became increasingly important between 1984 and 1988, when it accounted for almost two thirds of the corporation's income. Also, as can be seen in Table 2, in several instances it was more than enough to cover the corporation's headquarter's operating expenses.

133. Also, as one Ministry of Industry official noted in 1974, "(regarding) the possibility of collecting further general fees from the Group Companies, there is little direct pressure on NDC."64/ Auditors of the cigarette subsidiary once determined that "the charges are not in any way equated to the services rendered by NDC...the charges are considered inappropriate".65/ To conclude this point, NDC did not always manage her subsidiaries properly although the subsidiaries paid highly for the same. As far back as 1972, NDC admitted her "inadequate control over some group companies by NDC."66/ Ten years later, NDC again admitted that "control and monitoring of group companies has not been successful."67/

134. NDC's failure to execute the management duties entailed by her "second hat" as a holding corporation were not only confined to her subsidiary and associate companies. Management at headquarters was hardly any better off. A "comprehensive and realistic planning system" was only instituted in 1973,68/ as was the management information system.69/ Although loans were made within the group, NDC "never had a systematic inter-group borrowing and lending policy...Neither systems or commercial approach were effectively used," at least until 1972 when the practice was stopped by the state as noted previously.70/ There was a sharp increase in the rate of escalation of project costs in the 1970's which the Treasury in a letter to NDC called "alarming."71/ Head office recurrent expenditure also rose sharply from 17 percent of income in the earlier phase to 59 percent in 1972, declined during the years 1975 to 1978 and rose sharply in the early 1980s (Table 2), having decreased to 63 percent in 1984. These expenses have hovered between 40 and 50 percent of income since then. These increases occurred despite the decline in NDC responsibilities over the same period.72/

PERFORMANCE INDICES

135. There are virtually no numbers and figures on Tanganyika Development Corporations's performance. As far as NDC is concerned, her performance can be determined using several indices. To start with size of

investment, it can be seen in Table 3 that the corporation's investment increased by 1831.2 million between 1965 and 1988. They rose from 23.9 million in 1965 to 1855.1 million in 1988. It is also important to remember that more than 706.4 million in investments was hived-off between 1969 and 1980. It also accounted for more than half of parastatal investment in new firms.73/ NDC's investment in subsidiaries in which it had 50 percent equity or more increased from 75 percent of total investment in 1966 to 84.5 percent in 1967 (by 1968 it was still around 83.1 percent); conversely while investment in subsidiaries in which it had less than 50 percent equity fell from 24 percent of total investment in 1966 to 13 percent in 1967 and 11 percent in 1968.74/

136. Secondly, by 1968, out of the corporation's investment portfolio of Shs.207 million, Shs.187 million or 90.3 percent was in equity while only Shs.20 million or 9.6 percent was in loans.75/ In 1973 the corporation's ratio of share capital to loans was 1:0.91 as can be seen in Table 6. The position with regard to her subsidiaries at that time is also evident. Actually three of the subsidiaries had no loans at all. This was in part a consequence of government policy. Equity weighted very heavily in Tanzania's public enterprise in general as evident in Table 7.

137. Thirdly, the corporation's subsidiary companies increased from 19 to 42 between 1966 and 1967. By the end of this period in 1969, NDC had been transformed into something which one observer said, resembled an American conglomerate.76/ The corporation's subsidiary and associate companies total investments and known investments were an estimated Shs.1,273 million.77/ It had control of most government assets in manufacturing, tourism, food processing plants and agriculture, with the exceptions being the oil refinery and sisal estates. The number of its subsidiary and associate companies finally went down. The corporation now has 18 subsidiary companies and a number of projects under preparation. The National Development Corporation has been responsible for the conception and initial launching of at least one third of Tanzania's public enterprises.

138. Fourthly and most importantly, the corporation has always made a profit in absolute terms throughout its life as shown in Table 1 and 2. Profits ranged from Shs. 10.86 million in 1965, to Shs. 30.04 million in 1968, down to Shs. 4.99 million in 1974, to Shs. 47.5 million in 1988. Also the corporation used its income wisely with more than 80 percent being available for appropriation having been classified as operating surplus. Seventeen percent of the balance was spent on headquarters expense and the remainder was used to write off losses of subsidiaries and associates in the earlier period.78/ The percentages used on headquarters expenses increased in later years as already discussed and as can be seen in Table 2.

139. The above picture, however, needs to be put in its proper perspective.

(i) The corporation's return on investment during the first five-year period averaged 9.8 percent. This, however, was not a very high percentage. According to Kadane, equity investment could "earn in the range of 15% to 20% at the time.[79] The return on investment declined following the 1969 hive-offs. Between 1970 and 1975, it ranged between 1.8 and 3.8 percent. This was an even lower 2.5 percent average during this period. This was the time when the corporation was, according to its director in a "very illiquid state,"[80] and improved to 11.4 percent in the 1975-80 period. Especially noteworthy was the very good performance -- 14 and 14.9 percent during -- 1976 and 1977, which was a result of a competent management team-working in the context of the favourable economic conditions due to the coffee boom. Performance since 1980 has averaged a dismal 1.9 percent rate of return (Table 2). The post-Uganda war situation, the world-wide recession, the NDC hive-offs and mismanagement have definitely all been contributory factors to this disappointing rate of return. The rate of return on investment stood at 2.6 percent in 1988.

The years 1970 to 1974 were difficult years for the National Development Corporation. The corporation's performance was not good. The organization did not adjust well to hive-offs. Contributing to the above was the fact that the general manager of the corporation was pre-occupied with political games going on between him and the minister and the holding ministry responsible for the corporation. Following five consecutive years of poor commercial performance (1971-1974) shown in Table 2, the Ministry of Development Planning ended up recommending that NDC be disbanded.

However, the appointment of a new general manager apparently did the trick and turned the corporation around. Performance between 1974 and 1976 improved dramatically as can be seen in Table 2. Profitability improved in absolute and relative terms; there was a decline in head office recurrent expenditure; the number of subsidiaries and associate companies generating income for the corporation was increased, etc. From 1976 onwards, the corporation's performance has been mediocre.

The above is due to several reasons. The innovative general manager (who was a Tanzanian) moved on to handle Tanzanian relations with the European Economic Community as ambassador to Belgium. This was also a period which has been characterized by adverse economic conditions. There was a reduction in government expenditure, a credit squeeze, a massive devaluation of the shilling, and a liberalization policy which encouraged the dumping of all kinds of imported goods on the market. All this made the going very hard for the corporation.

Also, the corporation was now dealing in sectors (metal and engineering, iron and steel, pulp and paper, etc) that required large initial capital investment and long gestation periods. Also, some of the investment in these sectors were of the infrastructural type, usually with a very poor internal rate of return and thus not attractive to investors. This made capital mobilization very difficult.

(ii) As Table 2 indicates, most of NDC's income came from a handful of companies, which "did not indicate widespread commercial success of NDC companies" as Packard correctly observes. This is a trend which has continued up to now.

(iii) Furthermore,[81] as Table 2 shows, during the earlier period, most of the corporation's income came from associate companies rather than subsidiaries. NDC had very little to do with the management of associate companies like Williamson Diamonds Limited which alone generated Shs.26 million of the Shs.36 million realized in 1968 and Shs.40 million of the Shs.47 million realized a year before.[82] This trend ended with the removal of most of the associate companies.

(iv) In the earlier period, even the meagre income from subsidiaries was generated by a handful of companies. Up to three companies accounted for more than 80 percent of income from subsidiaries, as illustrated in Table 1. However, it should be borne in mind that many of NDC's subsidiaries and even associates were in formative and developmental stages. As Binhammer correctly observes some of the income they generated was committed to the repayment of loans used to acquire their equity by NDC.[83]

ORGANIZATIONAL RELATIONSHIPS

140. This section discusses the various organizational relationships for the National Development Corporation. The name change from Tanganyika Development Corporation to the National Development Corporation in 1965 was accompanied by three substantive changes. First, several administrative changes were undertaken. General administrative powers over the corporation were transferred from the minister to the president of the republic.[84]

141. In addition, the organization was transferred to the Central Ministry of Economic Affairs and Development Planning from the Ministry of Commerce and Industry. The minister of economic affairs and development planning also became the chairman of the board, with the minister of finance as his deputy. Last but not least, TDC's old board of directors, originally dominated by the administrative stratum (foreign and indigenous),[85] was replaced by one dominated by cabinet ministers and other presidential appointees. As can be seen in Table 4, between 1966 and 1969 more than half the board members consisted of politicians, that is, cabinet ministers. Finally, Monsieur J. Faudon, a French expatriate was appointed general manager of the corporation.

142. The board of directors was the corporation's ruling body. As already mentioned, its members were appointed by the president and more than half were cabinet ministers. NDC's board at the time was almost a "mini-cabinet," as one informed source put it.86/ The board also included two people from the private sector, local representatives of international capital, one member from the managerial stratum and another one from the administrative stratum as shown in Table 4. There was no representation from the popular classes, and pseudo-populists were also excluded. With the re-organizations of 1969, the politician's presence on the board declined. There was one member between 1969 and 1975. This group has not been represented on the board since then. This development was a direct result of the fact that the corporation became just another parastatal, responsible to one parent ministry. Membership of the board has been dominated by technocrats since 1976 as shown in Table 4.

143. The general manager was the Chief Executive Officer of the Corporation. Appointed by the Board with the approval of the president, NDC's general managership assumed a high profile with the appointment of Clement George Kahama as the first Tanzanian Chief Executive in 1966. Formerly a Chief Executive of a Cooperative Union, a member of the Cabinet and an Ambassador, Kahama brought to this job a sharp intelligence and business acumen, a mastery of bureaucratic and political infighting, and a lose relationship with President Nyerere. Buoyed by a powerful board which relied on him for information, an organizational mandate that cut across sectors, and a management team consisting of insecure expatriates and ambitious young economists, managers and accountants, Kahama became a force to reckon with. In 1969, for example, he defied his minister and principal secretary, and the country's Vice President by refusing to rehire an employee he had fired.87/

144. National Development Corporation more than any other parastatal posed challenges to the government which ultimately had to be met squarely. Especially troubling was NDC's size and diversity. Said President Nyerere, "we now have . . . one [corporation] whose responsibilities are so large and diverse that almost every economic ministry of Government is involved in its activities."88/ The minister for economic affairs and development planning, who was also Chairman of NDC board added, "NDC's crossing of sectoral boundaries not only makes planning and coordination almost impossible, it also engenders the neglect of many important activities of assigning responsibility."89/

145. In March 1989, NDC was broken up and "rationalized." The government, with the help of the administrative strata would try to assert control over NDC and other parastatals enterprises through the parent ministries. Each public enterprise was assigned to one such ministry. The National Development Corporation ended up under the ministry of industry. The minister quoted above was very clear as to the thrust of the rationalization effort; "whatever the nature of final rationalization" he said, "it means more in terms of ministerial responsibilities for parastatals than it does for individual companies. This does not indicate any change in Government thinking with respect to individual companies."90/

146. Although after some discussions it was decided to keep the same corporate name, several important changes were affected by the 1969 reincarnation of NDC. First, to dispel any shadow of doubt as to who was really in charge, it was categorically stated that "broad policy is a matter for the elected TANU Government [that is, political stratum] and the parastatal organizations are instruments of execution."91/ Like all other parastatal organizations, the NDC was to be responsible to one sectoral parent mainistry and through it to the president. The free-wheeling days of NDC management were now officially over. Said the government, "the overall structure must be such that increasing public enterprise and public economic initiative can continue to be effectively controlled and coordinated by government.93/

147. Finally, the NDC board was reconstituted. The Minister of Commerce and Industry assumed the Chairmanship of the NDC board while all other ministers left it. They were replaced by people from the managerial and administrative-technical strata. The post-1969 period in Tanzania was one in which the government tried to assert control on the managerial stratum in parastatal organizations. All the government's attempts at control applied to NDC. Indeed some were solely aimed at the corporation. On the other hand, NDC, like other parastatals during this period, continuously fought a rearguard battle, protecting its flanks while struggling to expand its domain and retain relevancy. The corporation fought very hard for its life.

148. The government made several moves to rein in NDC's management. The Second Five-Year Plan in 1969 tried to establish criteria for project appraisal to counter NDC's catch-all approach to new projects. These new criteria included commercial profitability; effect on government revenues; impact on investible surplus; balance of payments implications; overall national benefit (measured in shadow prices); employment potential in relation to capital expenditure; and possible linkage effects.93/ The plan also contained a list of projects which could be developed by NDC if they met these above criteria.

149. Secondly, NDC came under a barrage of criticism for its bloated headquarters establishment, mishandling of revenue flows from its subsidiary and associate companies, faulty planning, laziness and lack of effort, capitalist investment and management conduct, among other things. Said Nyerere, "It is socialist investment the Government wishes to see successfully undertaken by NDC, not just any investment."95/

150. Following five consecutive years of poor commercial performance (1970-1974) the Ministry of Development Planning ended up recommending that NDC be disbanded! At this juncture concern was expressed not only over NDC's autonomy but also over its poor management of subsidiaries and associates. The Ministry maintained that "the implications of the history of NDC is that the holding corporations have become spending institutions which consume most of the investible surpluses and produce nothing. It would seem desirable that the main focus of attention should be on the operating parastatals. It is recommended that in the long run the concept of holding corporations as it is now used in the industrial sector should be abolished."96/

151. Finally, NDC was continuously placed on the chopping block by the government. Between 1971 and 1974, NDC lost the wood-based industries to the Tanzania Wood Industries Corporation (TWICO); cashew programme to the Cashewnut Authority of Tanzania (CATA); seven mining companies to the State Mining Corporation (STAMICO); six textile companies to the National Textile Corporation (NATEX); and the Small Industries Development Organization (SIDO) was reconstituted as an independent corporation. During this period, NDC lost a total of seventeen operating companies and nineteen projects valued at Shs.229, almost equalling investment remaining under NDC in 1974 (see Table 3). In the meanwhile threats of even more drastic hive-offs were used to elicit a more dynamic management of subsidiaries by NDC. "After all," intimated the Minister for industries and Chairman of NDC Board to his Principal Secretary, "it could be that if monopoly production of beer and cigarettes were to be kept out of NDC portfolio, the Headquarters group will have much greater incentive to ensure profitability of the other enterprises whose profits are not automatic as is the case with cigarettes and beer! We don't want to go that far but it would do NDC management to fear such a possibility!"96/

152. The worst, however, was yet to come. Following Tanzania's adoption of a Basic Industrial Strategy in 1976, the Third Five-Year Plan (TFYP) identified NDC more narrowly as the "implementing organ"97/ of developing sub-sectors considered critical to Tanzania's long-term industrialization. These included iron and steel; chemicals; food and beverages; paper and wood; and non-metal products among others.99/ Between 1977 and 1979, NDC thus lost thirteen companies including the prized beer and cigarette companies, as well as the leather, paper and printing industries. The following year, NDC lost a further 17 companies and projects. The corporation lost 21.9 percent, 53.3 percent and 31.5 percent of its total investments in 1977, 1979 and 1980 respectively (Table 3). By the end of this phase, NDC's domain was confined to metals and metalworking industries, mechanical engineering industries, electronics and electrical engineering, primary metals, industrial gases, and pulp and paper.

153. It is true these "hive-offs" did "rationalize" NDC. By narrowing its focus they arguably promoted efficiency, although NDC did not buy this argument as will be seen presently. It is also true, however, that rationalization was meant to promote the government's control over the parastatal sector in general and NDC in particular. It was the application of the time-tested "divide-and-rule" tactic. As Development Plan acknowledged in 1975, "the inability of government to control NDC led to the policy of gradually breaking up NDC."100/ It is this hidden agenda which partly explains NDC's managements efforts to neutralize rationalization and its consequences.

154. NDC mounted an intellectual response to criticism, having three key features. It disputed tales of poor performance, especially those concerning its alleged inability to generate large investible surpluses. In a ringing Schumpeterian tone, the NDC general manager said in 1975 in appraising the performance of a holding corporation one should not take into account the corporation's ability to generate surpluses alone. . . but should also look at other important contributions, for instance, new projects developed, expansion of existing units, rationalizing existing business, diversification of existing units, increasing output and reduction in costs in group companies; efforts in reducing needless investment in current assets; and manpower development.... In the end industrial development means doing something in all these directions, and it can be shown that NDC has played and is continuing to play, at an accelerated pace, its part in all these activities."101/

155. Secondly, NDC argued very strongly that many of its shortcomings were not of its own making. NDC attributed many of its problems to the dependent nature of Tanzania's economy and the constraints this entailed, for example, rapid inflation and periodic down-turns of the economy; foreign exchange constraints and the consequent shortages of raw materials and spare parts which ultimately led to low capacity utilization; and transport problems, among others.102/ NDC attributed much of its troubles, however, to the political stratum. At a macro-level the distorted and confused decision making process fostered by the political stratum was attacked;103/ the role and utility of the parent ministry as a "super-manager of all the parastatals' detailed activities" was questioned;104/ and the stratum's policy on salaries was said to be a bottleneck.105/

156. At a micro-level, NDC questioned "the hand-to-mouth process" of its financing by the State. This process, NDC maintained, "was thoroughly unsuitable for industrial development,"106/ as was the investment strategy of NDC as the majority shareholder (in pursuance of the political stratum's control objective). As far back as 1988, the NDC Chairman had argued that "equity is risk capital."107/ In 1972 NDC made a strong plea to the president to change or at least relax the policy because "strict pursuance" they maintained, "cannot lead but to a practically complete standstill of any further development."108/ NDC contended that a 60 percent equity ownership entailed 100 percent of loan. Ownership of 60 percent of equity came with the obligation to serve all the needed loans. "This means 84 percent of the total cost."109/ By 1973, this policy of emphasizing equity as opposed to loans (which applied to the parastatal sector as a whole as shown in Table 7), had resulted in a capital structure for NDC and its subsidiaries in which the ratio of share capital to loans was generally very skewed in favour of equity (see also Table 6). The above was a key aspect in the general problem of the under-capitalization of NDC and its subsidiaries which was acknowledged even by the government's own commission in 1982.110/

157. Thirdly, NDC took issue with the government over the rationalization policy. Rationalization, argued NDC, was a poorly planned exercise.111/ Also it entailed the "precipitate" creation of new organizations,112/ caused "serious disruption" in the activities of the corporation,113/ led to a debilitating information loss and uncertainty in top personnel, exacerbated the manpower shortage problem, and meant duplication of activities and unnecessary overheads.114/ Above all, rationalization undermined NDC's financial base, as is evident from Table 1. Even the Chama Cha Mapindizi (CCM) commission noted that "the poor financial situation of NDC is a result of government's decision to hive-off NDC's profitable subsidiaries year after year which has left NDC very weak financially [own translation]."115/ NDC's management thus strongly argued against rationalization and in favour of a strong NDC. Said Kahama in an appeal to President Nyerere in 1973, "The need for having a strong NDC will therefore be as great in future as it has been in the past, and it is this reason also which has promoted me to submit these memoranda for your kind consideration."116/

158. Kahama's tenure, however, ended on a sour note as the corporation's profitability declined and conflicts between him and the parent ministry intensified. He was removed and appointed ambassador in 1974. That he lasted that long at the corporation is a good illustration of his strong relationship with the highest authority in the land. His successor was a stronger manager and the performance of the corporation picked noticeably. He also protested the continued whittling down of the corporation brilliantly and vigorously. His successor since 1978 has assumed a low-key profile.

159. Analyses of operating performance of NDC by the new management team in 1974 revealed the following weaknesses: severe liquidity problems brought on by external economic factors and magnified by internal inefficiencies in financial management; utilization of production capacities lower than could reasonably be expected; investment in current assets (debtors and stocks) much higher than prudent managers should allow; little apparent effort to control costs; very heterogenous accounting processes and systems used throughout the group; more than 75 per cent of companies relying on overdraft facilities; loans being made within the group without "a systematic inter-group borrowing and lending policy"; total cash resources less than 2 per cent of gross sales at the end of 1974; and absence of a corporate planning system.117/

160. The new management team reduced debtor levels to maximum of 30 days for domestic customers and 60 days for overseas customers; reduced stock holding to 90 days for imported materials and 30 days for finished goods and locally obtained raw materials; carried out a series of evaluations into plant capacity utilizations with the view to correcting identified problems; carried out cost reduction programmes; carried out a programme to evaluate product quality and improve the quality of exportable products; carried out accounting standardization; set up an input price monitoring unit; organized inter-group borrowing on a systematic and commercial basis; and finally, established a comprehensive and realistic planning system.118/

161. As far as manpower is concerned, the dramatic expansion of the corporation's investment after the Arusha declaration, led to a dramatic increase in the number of its subsidiary and associate companies, a phenomenon that made NDC a very heterogenous corporation. The above had several implications. First, given the dearth of qualified manpower in the country as a whole, which was made worse by the flight of foreign personnel after the Arusha declaration, NDC had a hard time finding the right people to staff its rapidly expanding divisions at headquarters. Consequently, throughout this period almost all of NDC's senior personnel at its headquarters were expatriates. In addition, NDC turned to foreign personnel to manage its ever expanding portfolio of subsidiaries. This did not come cheaply, as Table 8 shows in the case of Tanzania Breweries Limited. As Coulson and others have shown, many agreements and contracts were clearly "blood sucking." They led to loss of surpluses through commission fees and royalties, tariff protection, duty and tax concessions, and transfer pricing. along with de-capitalization of the local economy and the distortion of investment patterns.[119]

162. The impact of management agreements, however, was far-reaching and deep. First they removed the obstacle to the creation of more subsidiaries occasioned by the scarcity of available local managerial personnel. Second they also freed NDC management from the full-time supervision of subsidiary management. Here the underlying assumption was that the contracted agents were professionals who knew what they were doing -- a misplaced assumption, as will be demonstrated shortly. In any case, once no longer responsible for the close supervision of subsidiaries, NDC management could concentrate on the more glamorous task of project initiation and subsidiary creation. Third, management agreements and the holding corporation arrangement had the combined effect of rendering seriously ineffective the ruling coalition's attempts to exert control on the parastatal sector. Indigenization attempts went as far as the top management of the holding corporation. The other positions at headquarters and at the subsidiary level remained in foreign hands. The concepts and practices which were outlawed by the Arusha Declaration prevailed at the subsidiary level. Subsidiaries remained foreign expatriate enclaves and continually served as sources of and/or promoters of a reactionary counter-culture.

163. In a related fashion, the earlier situation, whereby most of total income was available for appropriation, was reversed beginning in 1971. Contributing to the reversal above was an explosion in NDC employment. As early as 1971, NDC admitted that the headquarters establishment had "grown at a record rate."[120] The CCM commission noted in 1982 that there was saturation in high-level posts at NDC.[121] Shortly thereafter, the Corporation's Chairman and Managing Director said NDC was "overstaffed." He expressed much concern that "the corporation, which was subjected to several hive-offs has all along retained the excess staff."[122] The campaigns for higher salaries which NDC mounted at times with success (as had all other parastatals) did not help matters either.

164. By this point it should be apparent that the greatest source of concern and the major preoccupation for NDC was at the institutional level, rather than the technical or managerial level.[123] At this level, the actions and reactions of the government and to a lesser extent of the administrative stratum was the cause of much concern to the managerial stratum of NDC. To fully cope with the threat, the managerial stratum actually contracted out most of the work at the technical and managerial levels to management agents.

165. Additionally, the managerial elite was aided by the exclusionary forms and structures which left them enormous authority in the organization. The various anti-labour activities of the post-Arusha period which we cannot go into here, chained the workers' hands. The move to enlist them in the rationalization phase was successfully fought off by the managerial group who finally got help from the political and administrative strata when the workers' agitation went beyond the prearranged agenda. Management committees that included workers' representatives were ruled out in establishments like NDC.

166. All in all, popular classes were the trampled-on grass beneath the battling "elephants" of the government and the managerial strata. Their projects did not fare well: bicycle production, for example, had come to a standstill in the early 1980s. After noting that the bicycle industry was important for rural transportation, supported agricultural production, and was a more effective foreign exchange saver than the motor vehicle industry, NDC Chairman and Managing Director Kilewo said in the 1984 report, "It can be frustrating to see this industry threatened by liquidation in a country where it should be a top priority."[124]

167. Still a sizeable number of Tanzanians got an opportunity of a hands-on training at the National Development Corporation. Many cabinet ministers, principal (permanent) secretaries, chief executives of Tanzania's leading companies both private and public, leading economists, statisticians, and even academics got their training through and in the National Development Corporation.

168. The above discussions provide the context within which the national development corporation's technical system can be discussed meaningfully. Several factors created an intense pressure for import substitution industrialization. The pressure for quick development through industrialization was immense. It was intensified further by nationalizations and the pressure to absorb and digest the acquired companies. The further goal of attaining self reliance added to the pressure. However, the needs of organizational and managerial survival mentioned above soon overshadowed everything else. A serious lack of personnel also made import substitution unattractive.

169. The corporation's technical system has had several characteristics over the years. Most of the corporation's projects have been large in size; imported wholesale mostly as turn-key projects. Also all the

projects and technical systems have required a steady and expensive diet of imported inputs, including raw materials, vital spares, and technical personnel. Indeed the supply of some of these inputs and their financing was part of the supplier pre-conditions for the supply of the machinery. Available evidence clearly shows that the more pressure was applied on the corporation's management through hive-offs and the like, the more indiscriminate the management became in acquiring any technology, machinery and projects that had a ready source of finance.

170. Such technical systems had very few links between them. Each and every project was "evaluated" on its own merits. Such considerations as the labour intensity of the technology, its adaptability to local conditions, the dispersion of industry through-out the country and away from Dar-es-Salaam and the Morogoro-Moshi-Arusha corridor, emphasis on rural industrialization and the like all got forgotten by the way side. The big and relevant thing was to establish projects, defend the corporation's size which was under attack, and its share of the national development budget. Organizational size was important because it affected the organization's ranking, which in turn determined the pay levels and other benefits (like using the VIP lounge at the airport) of the organization's chief executives.

171. Consequently, the organization was hit hard by the adverse conditions during the eighties. Shortages of foreign exchange made the importation of vital spare parts and other inputs impossible. The above led to a serious fall in the levels of capacity utilization in many of the corporation's subsidiaries and associate companies.

172. The case of the National Development Corporation has several important lessons for students, managers, and administrators of public enterprises in Africa today. These lessons may be enumerated as follows:

(a) First as regards formation, the corporation was created after what was then presented as thorough study by the Arthur D. Little consultants and the World Bank. There were compelling reasons for setting up this organization. There were also strong political reasons for the formation of the corporation. Political interest and motive was not and is not inherently negative as is assumed in some quarters.

(b) The importance of certainty regarding enterprise mission and objectives has also been underscored by this study. The change in the politicians' expectations of TDC without changing the mission statutorily handicapped TDC's operations. Also, problems will arise when the enterprise management pursues other objectives contrary to enterprise mission as happened to NDC between 1969 and 1974. The need for a congruence between the perceived mission, the statutorily intended mission, and actual mission for the enterprise cannot be over-emphasized. Relatedly, the case brings to the fore the criticality of

securing agreement on corporate objectives between enterprise management and government prior to their implementation. The government's efforts to change TDC and NDC's mission and objectives unilaterally were always bitterly resisted. On the other hand, government's efforts to undo some of the effects of unilateral pursuance of objectives by NDC management resulted in hive-offs and disruptions which did not serve the best interest of the corporation and the nation.

(c) There is no doubt that the corporation has played a big role in the development of Tanzania. For a long time it was the only vehicle through which government pushed for rapid economic investment and development. It initiated projects, managed production and service companies, offered a training ground for vital manpower, and generated profits for the state coffers. It is true that its performance was not optimum. Rates of return on investment could have been higher, its choice of technology could have been more rational, its management of its subsidiary companies would have been more efficient and effective, etc.

(d) This case also demonstrates that state ownership as such does not necessarily breed inefficiency and ineffectiveness. What matters is the attitude and conduct of the state towards the corporation. The state may decide or even be forced by circumstances to be helpful and the enterprise will thrive. But it may also decide to be closely involved in the affairs of the corporation to the benefit of the corporation. The critical issue is the methods that the state may use to assert its influence. Timing is also important. There are ways of determining corporate objectives, for example, that are constructive, and others that are disruptive of relationships and operations of the organization. There are methods of financing that promote rationality in parastatal organizations and others that do not. There are also methods of appointing parastatal management that promote efficiency, effectiveness, and rationality, and others that do not.

(e) This case though, raises some questions which need answers. Could it be true that the time for NDC-type parastatals has passed? Evidence is ambiguous. On the one hand, it is very likely that very few private investors would venture into the sectors that the corporation is now engaged in. This is because of their long gestation period, size of initial investment, low rates of return and the like. Those investors that would be willing, would most probably also insist on state participation as is the case in some of NDC's subsidiaries. But it is also true that the features characteristic of NDC like majority state ownership of equity; state financing through the development budget; political appointment of management; control through government channels that are hierarchical, formal, centralized, monocratic, and highly ineffective can be done away with for better corporate performance; and

(f) A critical factor in all the above is the quality of management. The appointment of a political entrepreneur as manager at the National Development Corporation resulted in low effectiveness and efficiency, while the appointment of a technocrat reversed the trend. It may be of interest to add that this manager has replicated his success at the corporation elsewhere. The point is that it is important for African states to locate, incentivise, and encourage indigenous management. The talent is there, it has to be properly used. The above is important in view of the issue of foreign management. This case demonstrates that foreign managers and consultants are extremely costly. It also demonstrates the high uncertainty regarding their performance. Foreign management does not automatically mean high levels of performance. Their allegiance is rarely to the company and the country. They are birds of passage out to make a quick buck. They should not be promoted at the expense of indigenous talent which must be nurtured.

Table 1: NDC Basic Data 1965-1984

		OF WHICH							
	Total	Subs.		Assoc.		(Net) ST	Bridg.	Misce.	M.S.
Year	Income	Div.	Int.	Div.	Int.	Deposits	Finance	Income	Fees
1965	14.82	1.93	.11	11.57	.68	.31	-	.22	-
1966	13.40	2.28	.15	9.50	.81	.34	-	.32	-
1967	46.80	4.45	.33	40.00	.70	1.06	-	.21	-
1968	40.30	10.62	.88	25.08	.68	1.43	-	.84	-
1969	35.30	9.92	.88	19.56	1.46	1.58	.43	1.57	-
1970	21.30	11.45	.90	.94	1.97	.45	1.53	3.03	-
1971	26.90	9.60	3.05	7.27	2.10	(0.94)	3.34	2.53	-
1972	39.00	13.28	4.46	8.53	1.94	(1.34)	4.15	7.83	-
1973	35.5	17.37	3.22	1.74	1.76	-	2.82	8.59	-
1974	25.9	-	-	-	-	-	-	-	-
1975	40.0	22.0	0.6	0.8	5.2	0.9	1.3	8.8	-
1976	58.1	34.7	0.6	1.5	5.3	1.4	1.3	3.0	10.2
1977	63.5	-	-	-	-	1.8	1.2	3.5	-
1978	62.9	-	-	-	-	1.2	0.9	3.5	-
1979	42.2	-	-	-	-	1.3	0.2	6.5	-
1980	30.5	-	-	-	-	1.2	0.1	8.0	-
1981	48.7	-	-	-	-	0.1	0.09	9.5	8.1
1982	45.7	-	-	-	-	0.6	0.08	8.6	10.0
1983	51.0	-	-	-	-	0.03	0.9	4.4	16.1
1984	66.9	-	-	-	-	0.7	1.1	3.4	16.7
1985	65.6	-	-	-	-	.1	.9	5.0	24.6
1986	104.7	-	-	-	-	.3	.6	6.4	33.3
1987	117.1	-	-	-	-	0.5	16.0	9.9	72.9
1988	185.9	-	-	-	-	1.7	20.9	18.8	103.2

KEY

Int. - Interest
Div. - Dividends
Subs - Subsidiaries
Assoc. - Associate Companies
Misce. Income - Miscellaneous Income
Bridg. Finance - Bridging Finance
ST - Short Term Deposits
M.S. Fees - Management Service Fees

Source: NDC Annual Reports and Files.

Table 2: NDC Basic Data 1965-1984

Year	Sub. Gen. 80 % of Income or More	Ass. Gene. 80 % of Income or More	HDQTRS Expense	Oper. Surp.	Return on Invest. %
1965	TPL	WD	3.10	10.86	10.6
1966	TPL ITC	WD	2.20	10.50	6.8
1967	TPL ITC TBL	WD	6.70	39.40	15.1
1968	BAT TBL	WD	10.26	30.04	8.4
1969	BAT TB1	WD	12.16	23.15	8.1
1970	BAT TBL	TPC MB	15.21	6.07	1.8
1971	BAT TBL TFC	WD TPC	20.22	6.71	1.6
1972	BAT TBL NATEX	WD TPC	23.14	15.85	3.5
1973	BAT TBL NATEX	MB TEL	22.79	12.74	3.8
1974	-	-	-	4.99	1.8
1975	-	-	23.6	16.4	8.2
1976	MANY	MANY	24.6	33.4	14.0
1977	MANY	MANY	20.3	43.2	14.9
1978	MANY	MANY	22.5	40.5	9.7
1979	MANY	MANY	22.0	20.2	4.5
1980	MANY	MANY	25.8	4.8	0.7
1981	MANY	MANY	21.8	26.8	3.0
1982	MANY	MANY	38.4	7.3	0.7
1983	MANY	MANY	41.9	9.0	0.9
1984	MANY	MANY	42.1	25.0	1.7
1985	-	-	35.9	8.5	0.5
1986	-	-	42.6	45.3	2.7
1987	-	-	57.5	52.7	3.0
1988	-	-	97.0	47.5	2.6

Source: Dev. Plan, Memorandum, 37: Hamisi, Letter; NDC Annual Reports.

Table 3: NDC Investments and Transters to Other Parastatals

Year	Investment	Transters to Other Parastatals	% of Total Investment	New Investment
1.1.1965	23.9	-	-	-
1965	102.7	-	-	78.8
1966	117.0	-	-	14.3
1967	211.0	-	-	94.1
1968	311.0	-	-	100.0
1969	260.7	93.9	36.0	43.6
1970	333.5	14.4	4.3	87.0
1971	429.7	34.0	7.9	130.2
1972	450.3	134.4	29.8	20.6
1973	336.5	125.7	37.4	11.9
1974	281.2	55.3	19.7	N.A.
1975	199.1	82.1	41.2	N.A.
1976	239.3	-	-	40.3
1977	290.3	52.3	21.9	103.6
1978	415.8	-	-	125.5
1979	457.2	53.3	11.7	-
1980	666.1	61.0	9.2	218.7
1981	884.1	-	-	231.7
1982	1,066.8	-	-	64.8
1983	1,002.0	-	-	476.6
1984	1,479.6	-	-	151.0
1985	1,629.6	-	-	51.4
1986	1,681.0	-	-	1,062.5
1987	1,743.5	-	-	111.6
1988	1,855.1	-	-	-

Source: Annual Reports.

Table 4: NDC Board Composition 1966-1987

Year	Politicians	Administrative/ Technocratic	Managerial	Private	Total
1966	6	1	1	2	10
1967	5	1	1	2	9
1968	5	1	1	2	9
1969	5	1	1	2	9
1970					
1971	1	5	3	1	10
1972					
1973	1	4	3	1	9
1974					
1975					
1976	1	3	4	2	10
1977	-	4	5	1	10
1978	-	4	6	-	10
1979	-	4	6	-	10
1980	-	4	6	-	10
1981	-	4	6	-	10
1982	-	4	6	-	10
1983	-	-	-	-	-
1984	1	4	3	2	10
1985	1	4	3	1	9
1986	1	4	3	1	9
1987	1	4	3	1	9
1988	1	4	3	1	9

Between 1966 and 1975, the Chairman of the Board was a Cabinet Minister. Since 1976, he has come from the managerial strata.

Source: NDC Annual Reports.

Table 5: Foreign Factor in Subsidiary Management 1969 and 1982

Subsidiary	Management Agreement	Expatriate Management
1969		
B.A.T. Tanzania. Ltd.	Yes	Yes
Friendship Textile Mill, Ltd.	No	No
Kilimanjaro Breweries, Ltd.	Yes	Yes
National Printing Co.	No	No
National Small Industries Corp.	No	Yes
Nyanza Salt Mines	Yes	Yes
Tnaganyika Instant Cottee	Yes	Yes
Tanganyika Meerschaum Corp.	Yes	Yes
Tanganyika Tegry Plastics	Yes	Yes
Tanganyika Breweries	Yes	Yes
Tanzania Diamond Cutting Co.	yes	Yes
Tanzania Elimu Supplies	Yes	Yes
Tanzania Finance Co.	No	No
Tanzania Shoe Co.	Yes	Yes
Tanzania Tanneries Co.	Yes	Yes
1982		
Aluminium Africa	Yes	Yes
UFI	No	No
Metal Box	Yes	Yes
Tanzania Crown Corks	No	No
Steel Rolling Mills	No	No
TANALEC	No	No
Tanzania Cables	Yes	Yes
NACOLTD	Yes	Yes
Mangula Machine Tools	No	No
Motor Mart (T) Ltd.	No	No
Bicycle Co.	Yes	No
National Steel Corp.	No	No
Tanzania Oxygen	Yes	Yes
Mbeya Farm Impliments	No	No
IPS	No	No

Source: Packard, 305; Dev. Plan., Memorandum, 10; NDC Annual Reports; CCM, Reports.

Table 6: NDC and Subsidiary Key Ratios, 1973

Enterprise	Ratio of Share Capital to Loans	Reserves Percentage of Share Capital Plus Loans Plus Reserves
NDC	1:0.91	25.66
B.A.T. Tanzania, Ltd.	No Loans	28.16
Friendship Textile Mill, Ltd.	1:1.08	16.01
General Tyre East Africa, Ltd.	1:1.16	11.29
Kibo Paper Industries, Ltd.	1:0.57	19.87
National Printing Company, Ltd.	1:0.35	74.86
Printpak Tanzania, Ltd.	1:0.67	29.15
Steel Rolling Mills, Ltd	1:0.67	-
Tanganyika Instant Cottee Company Ltd.	1:0.62	-
Tanganyika Tegry Plastic, Ltd.	1:0.26	-
Tanzania Bag Corporation, Ltd.	1:0.71	6.90
Tanzania Publishing House, Ltd.	No Loans	-
Tanzania Shoe Company, Ltd	1:2.17	90.91
Tanzania Tanneries Company, Ltd.	1:1.5	-
Ubungo Farm Implements Manufacturing Co. Ltd.	1:8.68	-
National Steel Corporation, Ltd.	No Loans	63.24
Aluminium Africa, Ltd.	1:0.56	22.75

Source: NDC Files.

Table 7: Government Equity in Parastatal Investment (Shs. Mil)

Year	(1) Total Parastatal Investment	(2) Investment Weighted by Equity	(2) As % Pt (1)
1964-1965	81	62	77
1965-1966	112	84	75
1966-1967	236	205	87
1967-1968	314	273	87
1968-1969	266	218	82
FFYP	1,009	842	83
1969-1970	332	252	76
1970-1971	498	398	81
1971-1972	514	427	83
1972-1973	459	445	97
1973-1974	966	879	91
SFYP	2,762	2,401	87

Source: Clark, Socialist Development, 118.

Table 8: Tanzania Breweries Limited, Payments to East African Brewaries Limited Under the 1967 Management Agreemen

As Managing Agents	1967	1968	1969	1970	1971	1972	1973	1974	1975	Tot
1. Group expenses	519.4	513.6	606.3	687.2	849.2	1,764.3*	1,479.6*	1,480.0	-	7,8
2. Staff salaries	-	-	-	-	-	-	1,028.1	1,018.0	663	2,7
3. Royalty (Bottling)	960.8	1,170.8	1,331.2	732.0	2,573.8	3,541.3	4,108.8	3,817.0	3,817.0	23,2
4. Technical Consultancy	61.0	69.0	94.3	69.8	85.7	-	-	-	-	3
5. Others: Laboratory	1-72-1	90.7	108.0	111.2	114.7	-	-	-	-	4
FARI Plane	P-75.4	107.2	88.2	78.0	150.3	71.7	218.5	275.9	74.7X	1,1
R. AS SHARE-HOLDERS:										
DIVIDENDS PAID	4,337.6+	2,699.7	3,483.2	3,203.6	5,615.0	4,973.6	4,177.7	-	-	28,4
TOTAL	6,026.3	4,651.7	5,711.2	5,881.8	9,388.7	10,350.9	10,927.7	6,882.7	4,552.7	64,3

Average/annum - Management Agreement
Average/annum - Including Dividends

Not Available
* Not yet paid
Y Div. for the year ended 30/6/1967
+ To June 1975
Year ending 30th June, charges for the year ending 30/6/1975 not yet received

Source: NDC files.

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