Report No. PID8083

Project Name	Tanzania-Privatization & Private Sector... Development
Region	Africa
Sector	Private Sector
Project ID	TZPE49838
Borrower	Government of Tanzania
Implementing Agencies	Parastatal Sector Reform Commission Second Floor, Sukari House Sokoine Drive/Ohio Street P.O. Box 9252, Dar es Salaam, Tanzania Contact: Mr. J.C. Rubambe, Executive Chairman Tel. (255-51) 115483, 116268, 34296 Fax. (255-51) 39482, 33406 The Loans & Advances Realization Trust Samora Avenue, P.O. Box 20555 Dar es Salaam, Tanzania Tel (255-51) 131091/131464 Fax (255-51) 114097
Date this PID prepared	February 26, 1999
Projected Appraisal date	May 1999
Projected Board date	September 1999

Country and sector background:

In the early 1980s, with a change of President and following a period of sharp economic decline, Tanzania shifted course away from the socialist agenda pursued since 1967 towards a more market-oriented economy. In 1986, the Government embarked on its first comprehensive adjustment program. One of the central elements of the Government's reform agenda has been a privatization program.

During 1994-1998, Tanzania divested about 270 public enterprises (PEs). These included mainly small-medium PEs in tradable goods sectors, but also a number of large PEs (e.g., brewery, cigarette factory). In some cases, such as leather, privatization of PEs has opened up markets for private entrepreneurs and improved output and efficiency. There have, however, also been cases in some sectors where delays in divestiture have contributed to deterioration of fixed assets, and created uncertainty which has limited private investment.

In late 1996 the Government of Tanzania (GOT) decided to expand the privatization program to divest all major utility and infrastructure PEs (water, telecommunications, ports, railways, electricity) banking, agriculture and mining PEs. The GOT's stated aim is to divest all of these enterprises by the end of 2000. However, in practice, it is expected that divestiture of the remaining 230 PEs will take longer, and some (notably in infrastructure) will be opened to private investment in stages over the medium to long term.

Project objectives

The project will support implementation of Tanzania's public enterprise (PE) privatization program. Specific objectives are to : (1) continue institutional support and capacity building through the Parastatal Sector Reform Commission (PSRC), for implementation of PE divestitures - including major PEs in public utilities and infrastructure; and strengthen the efficiency and transparency of the privatization program, through streamlining of government approval of divestitures, greater delegation of implementation to PSRC, and adoption of clear, consistent overall policies for the treatment of PE debt and for the retrenchment of PE employees; (2) continue support for liquidation of non-performing assets of the state-owned banks by the Loans and Advances Realization Trust (LART), including for implementation of new methods to contract out marketing of assets internationally; and preparation and implementation of the eventual move of LART to the private sector and the creation of a competitive market of Non-Performing Asset (NPA) collection services for the banking system; (3) establish an institutional framework for regulation of infrastructure and public utilities, including a program of institutional development, public education and regulatory capacity building; (4) support creation of a government-private sector dialog mechanism to promote removal of key regulatory and business environment bottlenecks to expansion of private and foreign direct investment (FDI), especially for utilities and infrastructure, and the improvement of Tanzania's image as a destination for FDI.

Project description

Support to Privatization Program - Technical Assistance and Advisory Services for Preparation and Execution of PE Divestiture Transactions.

Support for LART's Program of Debt Collection for Non-Performing Assets of Banks - Technical Assistance and Advisory Services for Receivership and Liquidation Activities; and Support for LART's Medium Term Conversion to a Private Debt Collection Agency

Completion of LART's Program for Debt Collection of State-owned Banks

Support for LART Conversion into a Private Debt Collection Company, and of LART Tribunal's Transformation into a Commercial Court, as part of a Market-based Approach to Strengthening the Debt Collection Market for Banks

Design and Implementation of Institutional Framework for Infrastructure and Utilities Regulation

Business Environment Reform Design - Government/Private Sector Consultative Mechanism

Project financing

Component	Indicative Costs (US$M)
Privatization Support	25.36
Debt Collection for Banks (LART)	3.86
Utilities Regulatory Framework	12.24
Business Environment Improvement	1.22
	42.68

Project implementation

Implementation Period: Five years, 2000 to 2004

Executing Agencies: Given the project framework there will be two executing agencies initially; a third - and potentially a fourth - will be established in the first year of the project:

(a)-PSRC - The privatization component of the project will be the responsibility of the PSRC. The PSRC has about 16 professional level staff, including accountants. Decisions within the PSRC are taken by the Commission (Board) which is headed by the PSRC Chairman (Managing Director). The PSRC reports to the Ministry of Planning but, as a Presidential Commission, it also has direct access to Cabinet and the President when necessary.

(b)-LART - The liquidation/ NPA collection component of the project will be the responsibility of LART which is composed of 20 professional staff including three accountants. LART management answers to its board of directors and is ultimately responsible to the Ministry of Finance which, under the LART Act, is the ultimate authority over LART.

(c)-Regulatory Agency(ies) -During the first year of implementation of the proposed Project, the final decision on the number and format of the regulatory agencies will be taken by GOT.

(d)-Government/private sector consultative mechanism: The organizational set-up for this will be finalized during the first year of the proposed Project's implementation.

Once the agencies under (c) and (d) above are established and staffed with qualified professional staff, including accountants, they will assume executing agency status and manage their own funds from the Bank. Until such time, however, disbursement for the regulatory and business environment components would be managed by the PSRC.

Accounting, Financial Reporting and auditing arrangements: The project records and accounts will be audited annually by a private accounting firm acceptable to IDA based on financial and accounting systems satisfactory to IDA. The annual audit report will be submitted to IDA within four months of the end of each fiscal year.

Project records and accounts under the Privatization component, excluding those which pertain to activities to be carried out by LART, will be maintained and managed by PSRC. LART will be responsible for its own accounting of project funds. Since both PSRC and LART have been associated with the accounting implementation of the previous project under Credit 2507-TA, both agencies have sufficient experience and capability to manage their own project accounts. As such, PSRC and LART shall be individually responsible for ensuring compliance with IDA accounting and auditing requirements as stipulated in the Credit Agreement.

The Private Sector Development and Regulatory components will be implemented by agencies to be identified and agreed with GOT during Project appraisal. Agreement will also be sought from GOT to appoint accountants for these agencies with well defined terms of reference satisfactory to IDA as soon as practicable, once these executing agencies have been established. Appropriate training will be organized by IDA to enable the newly appointed accountants to familiarize themselves with relevant accounting and auditing reporting requirements including IDA disbursement procedures.

Monitoring and evaluation arrangements: (a) Quarterly progress reports, established on the basis of project implementation manual; (b) Bank's supervision missions and project mid-term review; (c) Government will transmit to IDA a completion report, within six months of credit closing.

Project sustainability

The Project entails significant risks with respect to policy implementation and capacity. While GOT is now generally committed to privatization of major PEs (notably in infrastructure and utilities), and to a reduced role for the state in the economy, the transition toward private sector-led, market-based growth is still at an early stage. President Mkapa is personally providing strong leadership to accelerate the pace of change, but within the ruling political party (the CCM) there seems only modest evidence of consensus on the current reform efforts.

The planned divestitures of major infrastructure and utility PEs over the next 3-4 years involve significant policy and regulatory issues of a nature which is unfamiliar to Tanzania, and for which technical and managerial capacity is very limited.

The risks of wavering government commitment to an efficient and transparent divestiture process, undermined by undue influence of powerful vested interests, must be considered as significant.

There is a high risk that inadequate government commitment to necessary reforms (aimed at freeing up markets, increasing competition and removing bureaucratic controls), combined with inadequate governance and corrupt practices, may constrain private, including foreign, investment.

Risks of a more focused and technical nature are that lack of consistent policies with respect to PE retrenchment and treatment of PE debt could undermine the financial and fiscal sustainability of the privatization program.

These risks are to be addressed to the extent possible principally through the provision of considerable technical assistance aimed at increasing understanding within government, and more generally, of the implications of the various policy options and by encouraging the stronger participation of business interest groups in the policy debate concerning business policy.

Lessons learned from past operations in the country/sector

The principal lesson learned from the privatization program conducted over 1994-1998 can be summarized as a need to better define the privatization process and the roles of the various institutions and agencies involved (PSRC, line ministries, cabinet, etc.) to ensure a smooth, transparent process. This is particularly important as experience has shown that the lack of a clearly delineated process with clear areas of responsibility has led to some confusion, a lack of coordination, and, in some cases, a lack of transparency. The lessons can be broken down into constituent elements, including:

The need to increase both delegation of authority to PSRC and its advisors but at the same time increase accountability through periodic independent process audits.

The need to increase technical capacity of the program through contracting out to experienced consultants (particularly for large, infrastructure related firms).

The need to better evaluate, plan and obtain agreement on consistent overall approaches to such problems as (a) retrenchment policy and implementation, and (b) the handling of enterprise debt.

The need for better communication with stakeholders (including the general public) over the policies, the program and the use of the proceeds.

In addition to these lessons from previous projects in Tanzania, lessons from privatization programs in the region and around the world, particularly on the importance of regulatory frameworks for privatized infrastructure, indicate :

the necessity of a regulatory framework for infrastructure and utility companies that is clearly spelled out and credibly committed to by the government in order to attract sufficient participants to the process and to ensure effective competition.

the importance of ensuring that the regulatory regime is feasible in the Tanzanian context (i.e. limited discretion in the initial stages), credible for potential investors (supported by appropriate contractual arrangements) and sustainable over the longer term (adequate attention paid to all relevant stakeholders' incentives). This will require that GOT effectively put into place mechanisms which reinforce the government's commitment to treat investors fairly and reduce the ability of the concerned parties (including future governments) to unilaterally undo commitments.

the significant benefits resulting from effective, mutually agreed, government-private sector consultative mechanisms for enabling a dialog on business environment reforms to yield practical and sustainable policy change, provided that both sides are committed to the process - as well as the utility of donor-supported technical assistance to help facilitate it.

Environmental Assessment Category Rating: C

Project benefits

The Bank will be able to provide vitally needed assistance and technical support for key elements of the Government's adjustment program. In particular, through IDA financing and Bank technical support, the project will enable the Government to have access to high quality advisors for both the privatization of large sections of its economy and the necessary regulatory framework so that the country can maximize the economic gains from private sector participation.

The Bank is an important supporter of the client's efforts to increase transparency and public accountability.

Tanzania should benefit from the provision of objective, client-oriented technical advice and support in the areas of privatization, utility regulation and business environment reforms, which the Bank is particularly well-placed to provide as a multilateral institution, with considerable experience globally and in Africa in providing such assistance.

Date the initial PID prepared: February 26, 1999

The information contained in this PID is based on the findings of the IDA team which pre-appraised this project in May of 1998.

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

Processed by the InfoShop week ending August 27, 1999.