



BALANCE OF ECONOMIC POWER IN TANZANIA

Prepared by:

TANZANIA CHAMBER OF COMMERCE, INDUSTRY AND AGRICULTURE.

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PREFACE

Tanzania Chamber of Commerce, Industry, and Agriculture, in response to intense debate in the media on how the indigenous can be assisted, directed a committee of the Chamber to come up with a proposal. The Government and Legislation Committee came up with this paper which was adopted by the Management Committee of the Chamber for discussion within the Chamber and other groups to get more suggestions.

We received a lot of contributions from various groups including academicians, civic organisations business organisations and some government officials in their personal capacity. These contributions have improved the content of this document considerably and has covered the views of many in our society. We believe, however, as this document and its contents become available to more people, more contributions will be forthcoming. We encourage everyone to come forward with more suggestions on this subject. In the meantime, we urge the authorities to look into the issues raised and take appropriate action without further delay. The Chamber will give whatever contribution may be required in the implementation of a program to remedy this economic problem.

Finally we wish to thank all who have been so caring as to spare time to make contributions to this issue of the management of our economy. We still need more of their assistance to see to it that it is implemented for the benefit our country and its people. We shall therefore expect all of you to continue the dialogue started to its success.

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PRESIDENT.

**TANZANIA CHAMBER OF COMMERCE, INDUSTRY, AND
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INTRODUCTION

An ideal development process is that which empowers all the people to participate in gainful economic activities which will improve the stock of goods and services for improvement of their standards of living.

The economy of Tanzania has for a long time not experienced the growth expected from the corresponding input that has gone into it. There are various reasons for this lack of growth. The vast majority of the Tanzania population is involved in economic activities at subsistence level. There is, however, a small group playing the role of leadership in economic activities that has determined our economic status today. This small group has occupied business activities that have become their monopoly and yet re-investments are directed elsewhere outside the country to the detriment of the economy.

If, however, we manage to widen the base of this small group to include the majority of the population, the resulting increased activity will not only bring a jobs boom but also improvement in the well being of the economy at large.

It was for this reason that during the early 1960's there was debate on the line to take; whether to have a state controlled economy or whether to let it be under the control of the Private Sector which was largely foreign. Mwalimu J.K. Nyerere as Prime Minister issued a circular ordering preference to natives in award of government tenders and contracts. Mwalimu's action then was a way of putting to action what he had said in his 1959 essay. "The Race Problem Demands Economic Actions" in

which he wrote:

"If we cannot close the gap rapidly enough, so that the differences in economic status become less glaring and above all, freed from their former link with the racial divisions, there is a possibility that the potential danger might become a reality and the economic problem brings us back to the very "race" problem which we claim to have solved"

Of course there were hardly a handful of indigenous entrepreneurs to be considered as the business environment had been too hostile to them. Things did not change much in spite of the circular to give preference to the indigenous and as this was too unsatisfactory some steps were initiated by the government. In 1964 USAID commissioned Mr. Edward Tenenbacum to carry out a study on the industrial climate of the then Tanganyika based on the Government policy of non-racialism.

Based on the reality of the situation as he saw it, Mr. Edward Tenenbacum had this to say.

"The Tanganyika Government has adopted a policy of Multi-racialism, promising equality to all Tanganyika Citizens, and hospitality for all desirable foreign investors regardless of race. Sooner or later, however, that policy must show political and economic results that are acceptable to the **Negro** majority.

As regards our specific topic of industrial development the matter may be put boldly. Unless some **Negro** industrialists develop soon, there will soon not be a satisfactory climate for any Indo-Pakistani or white industrialists. Unless industrial development begins to

include the majority of the population at all levels from boss to the lowest unskilled labour it will fail politically and probably will become impossible economically.

In saying this, we recognise that **Negroes** do not have resources or training to take major responsibility for industrial progress immediately or for some years to come.”

The observations of Mr. Tenenbacum was to be as true then as it is today 30 years later. In 1967, the state took control of the commanding heights of the economy. No action was taken, following this socialisation of the economy, to ensure that the remaining part of the economy would ensure that the indigenisation of the small private sector would develop alongside the state enterprises.

BACKGROUND AND CURRENT SITUATION

At the time of independence nothing had been done to bring balance in the economic ownership and distribution between the minorities and the majority indigenous people. The practices and conditions that prevailed during the colonial times resulted into the indigenous becoming poorer and were relegated to play minor roles in the economy of their country.

Although the economic activities before and immediately after independence were largely dominated by the private sector, the main players were foreign firms owned and operated by Europeans and Asians. This situation did not look too attractive for the future of the economy of the country and the new government at independence realised that political independence without economic control is like having a firearm without ammunition.

This situation required remedial action, but unfortunately the minor steps

taken were not followed up with evaluation of success or failure of the objectives to put the economy in the hands of the natives.

To the contrary the indigenous had more handicaps in entering into the business sector before or after the Arusha declaration. In spite of the fact that all the Banks were State owned and largely managed by fellow indigenous citizens after the Arusha Declaration this did not result into any preference for the indigenous policy of socialisation of the economy has come to a dead end; it has come to fail because it ignored totally the placement of ownership of the economy into the hands of the majority and effective participation in modern economic activity by the indigenous people who Mr. Edward Tenenbacum referred to as **negroes**. Even though the Government decided to own the commanding heights of the economy its multiracial performance remained dismal and disappointing. While the Government was in control of the economy it pursued a policy that encouraged the development of the public sector parallel to that of a private sector owned by a small ethnic minority of Indo-Pakistani industrialists and traders. This small group, of favoured men, was not only protected but could walk through the corridors of power to get any concessions and favours they wanted, and used the influence they gained, to transfer large sums of money for investments outside. This out flow capital has been estimated to be in excess of \$ 1 billion. It was no wonder to hear a high ranking official expressing great surprise on learning of Tanzanians who were billionaires (in sterling pounds), and yet the economy of Tanzania was so poor and still continuing to fall.

The poor and silent indigenous majority through the policy of non-socialism were denied all opportunities to engage in trade and industrial activity and largely became marginalised. The necessity to create wealth among the indigenous was considered evil to the well being of socialism.

No consideration was given to the growing flight of capital from the country perpetrated by the minority business group.

Although the government nationalised houses in the urban centres in 1970 this did not benefit the indigenous by giving them opportunity to have outlets for business as was generally expected. The Banks continued to maintain a bias in financing projects promoted by the minority Indo-Pakistani group. They, on their part, ensured entrenchment of their position by a closely coordinated strategy discussed at their places of worship and homes where locals were barred even if practising the same religion.

They made huge returns due to the non-performing public sector and avoidance of tax . All in all this wealth ill-acquired was invested outside as the country became poorer and poorer. There was no serious attempt made to evaluate this situation with a view to correcting the imbalance nor to stem out the enormous flight of capital from the country although the stagnations was clear.

A clear example is when the Government decided to open Bureau de Change shops to facilitate foreign exchange transaction . Although the Government was supposed to know people who were involved in capital flight, it was mostly the same people who were lincensed to run Bureau de Change shops.

As if this was not enough, Meridiano Biao Bank was lincensed to carry out banking operations in the country with out prior analysis of this operations . When other countries were busy taking emergency steps, our Governor was to the contrary convicing us that the Meridiano Biao Bank was a viable bank. Consequetly, the country is estimated to have lost over US Dollars 120 million which is equivalent around Tshs. 72 billion.

The Government, now caught up in the doldrum of a non performing public sector, has come to the conclusion that privatisation is the penacea to the problem. This move to privatise rests first on the need for the Government to relieve itself of the huge financial burden placed on it by the failing parastatals and second on the belief that the private sector is efficient in the use of resources to produce goods and services. These may be true assumptions to a certain extent, but even at this late hour the government is not addressing the issue of indigenous ownership or control of the economy.

Privatisation under the present distribution of economic power is bound to further entrench the economic hold of an ethnic minority over the national economy. This is undesirable both from equity as well as from stability stand points. Efficiency considerations dictate that parastatal sector resources are put to more productive use and it is believed that only through privatisation can this be achieved. In this context the equity considerations are seen as merely narrowing privatisation options rather than obviating the process. For privatisation to be transparent it is felt that a capital market is required.

This may well be true but if a capital market gets put in place under the present economic situation, subscriptions to shares will be by the ethnic minority who already possess a disproportionately large share of the national wealth and possess the requisite skills in modern industrial and commercial methods. Privatisation under these conditions will not be sustainable because the majority who will feel deprived will apply their political power to take away the economic power from the minority. This explains why efficiency considerations devoid of equity are a delusion in the long run.

REMEDIAL MEASURES REQUIRED

To avert a situation in which the indigenous majority can revolt and take the law in their own hands, there is pressing need to change the balance in economic power through a deliberate development of a dynamic indigenous entrepreneurship. This can be done by adopting a deliberate strategy in the empowerment of the indigenous people - In this respect the following will be required to be part in place as a start:-

TRAINNING.

3.1 To train the indigenous in managerial, technical and trade skills. TCCIA under PTA, UNDP, ILO, USAID funded training, and other programmes is poised to do this through workshops to be organised in all the regional centres where TCCIA has regional offices. Currently these are Dar es Salaam, Morogoro, Iringa, Mbeya, Dodoma, Kigoma, Mwanza, Shinyanga, Arusha, Ruvuma, Kilimanjaro, Tanga, Sumbawanga and Tabora.

Special consideration will be given to border areas i.e. Bukoba, Kigoma, Mtwara, Arusha, Kilimanjaro, Mbeya, Tanga and Sumbawanga.

Discussion had been going on with local training institutions to design relevant syllabus that will be used to conduct the training. With the USAID funding of the Business Centre some workshops have been organised with resource persons from the USA. Using the experience gained from these workshops a most suited syllabus will be developed and adopted for use across the country. For obvious reasons, a cadre of trainers will be developed so that these can be placed in strategic TCCIA regional offices to facilitate continuous training and related follow up. The training will cover existing businessmen and women in the informal and formal sector, school drop outs, graduates coming

out of the Universities and Colleges and all those who will be involved in the on-going retrenchment in the civil service and parastatal sector.

3.2 INDUSTRIAL ESTATES

TCCIA proposes that in order for the training to achieve the intended impact and the necessary results, the Government should allocate land in all municipalities where business premises and industrial estates can be established with all utilities installed to be rented out on nominal rent to micro and small scale entrepreneurs. The businessmen and industrialists in these locations will undergo training at their places of work.

3.3 TCCA REVOLVING FUND AND CREDITS

To make the indigenisation project take off, venture capital is essential. In this direction TCCIA has plans to start a Revolving Fund that will eventually develop into a bank that will extend credit and Consultancy services to its clients on concessionary and affordable terms. The fund will be contributed to by members, non-members, and hopefully supported by the Government. Recently the government allocated a sum in the budget to develop the private sector, these funds would best be invested in the TCCIA's Revolving Fund, to aid the uplift of the indigenous entrepreneurs. The TCCIA and or the Fund would then be required to account to the government on the utilization of these funds. Additionally the government should amend the Banking Act to require that a specific minimum percentage of all lending by all Banks should be loaned to the indigenous entrepreneurs and this percentage should progressively increase with the growth of this sector. The current lending to the indigenous from the Banking sector is estimated to be a meagre 2.6%. The minimum lending by

all Banks should be fixed at 25% immediately and be reviewed annually through audit. Specific targets should be set and monitored in each annual plan to fix the minimum percentages that would be growing annually and progressively to approximately 75%.

.4 MARKETS FOR SMALL-SCALE FARMERS

Through the TCCIA Regional branches there are plans to source markets for peasant's agricultural goods both internally and externally through its business development unit. Those indigenous entrepreneurs able to carry out this trade should be given preference and financial backing as stated in 3 above.

.5 PRIVATIZATION

The current sale of parastatals should be guided by a policy that ensures the workers and/or indigenous entrepreneurs are given preference for the buy out. This could be achieved through the following methods:

- * Partial payments with a staggered repayment programme for the indigenous.
- * Management contracts by indigenous entrepreneurs.
- * Privatisation Trust Fund for empowerment of the indigenous.
- * Foreigners should be required to go into partnership with indigenous.

The privatisation commission should include, among them, a sizeable representation of the private sector through the TCCIA. Currently the commission's affairs is too detached from the Private Sector. In order to ensure transparency the Private Sector should have a central role to play.

Alongside with this step the parastatals should become public companies so that shares can be sold openly to anybody willing to invest in the given parastatal as CRDB demonstrated recently. One

would have to be careful to ensure that shares are not concentrated in the hands of a few investors and that sale of shares by indigenous may have to be restricted or controlled through appropriate rules and regulations to avoid a situation where shares are sold to a minority group there-by causing concentration of economic power into the hands of yet another small group of people.

CREATION OF EMPLOYMENT OPPORTUNITIES

While a thorough review of the current trade and investment policy must be made, some immediate measures to remove anomalies are required now to help ease the situation on unemployment and the opening of opportunities for retirees and graduates from our learning institutions.

The following measures should be taken:-

- * IPC must be restructured to involve fully the Private Sector.
- * IPC should be made autonomous and decentralised to all Regions.
- * The minimum qualifying investment expenditure for the indigenous should be considerably lower than for any other investors.

The Chamber and other supporting organisations would then assist those intending to take-up the challenge to get started on the right footing. The effect of this development would be greater creation of jobs and income generating activities to improve living standards as a way of improving the lot of the people by ensuring income for sustainability.

AFFIRMATIVE ACTION IN EMPLOYMENT

The jobs that require no skill or minimum skills should be made exclusive for the indigenous people as this group is continually becoming more disadvantaged in the run up for

opportunities. One of the immediate handicaps to the indigenous entrepreneurs to transact business is lack of business premises.

There is therefore an urgent need for the National Housing Corporation (NHC) to review its tenancy/allocation, procedures to effect a proportional allocation to the indigenous business people. The flight of capital has acquired such serious proportions that whatever we do without a change of direction and methods, the economy will continue to stagnate while we incur more the national debt.

We consider that there is urgent need to define business sectors that should be exclusive to the indigenous entrepreneurs. In the immediate the following should be set aside:-

3.7.1 **Shops:** The business of shops or Groceries do not require special skills to necessitate the need for imported manpower. These businesses should progressively be licensed to indigenous entrepreneurs only.

3.7.2 **Commission Agents and Manufacturers Representatives:**

These are businesses that require little skill and capital with no complications at all. In some you will not require much capital hence simple to get started, but where higher capital is required partnership should be allowed in the interim. Manufacturers should be required to deal with their representatives in Tanzania direct rather than through another country or company.

This will exclude most of the commissions from being diverted to other countries or persons. No person operating from outside Tanzania should be allowed to solicit business

in the country unless he is coming to back-up a known local entity.

3.7.3

Bureau de Change:

This is a relatively easy business to operate and yet very sensitive to the well-being of the economy. The country has for years experienced massive flight of capital carried out mainly by the minority Indo-Pakistanis. It should have been obvious from the outset that this business would have a compounding effect to the problem of capital flight if concentrated in the hands of those responsible and yet this is exactly what the licensing did.

This trend must be reversed by confining this business to the indigenous entrepreneurs. Banks, whether foreign or local, may be licensed to do the bureau de change business.

3.7.4

Travel Agency and Tour Operators:

Travel Agency - Other than the simple training in ticketing required, it's operation is straight forward. There is no need therefore to issue

licences to any other applicants other than to indigenous entrepreneurs.

Those non-indigenous already in this business must sell to the locals.

Airlines and Air Charter companies should be exempted from this restriction.

Tour Operators: - Tour operators owning one to 10 vehicles (inclusive taxis) should be exclusively for the indigenous entrepreneurs, the larger operators will be required to have a minimum of 50% indigenous participation

in their ownership.

3.7.5

Restaurant:

Restaurant operations (excluding those in Hotels) should be exclusive for the indigenous entrepreneurs except franchise restaurant which should be on 50% basis.

3.7.6

Petroleum Products Distribution:

The business of Petrol/Diesel stations is simple and indigenous people should be made exclusive operators in the country.

3.7.7

Media:

The management of a broadcasting, Television, newspapers, require considerable skills, nevertheless the impact of these on any country could determine the future direction of the entire society. In a number of advanced countries from whom we tend to learn transparency from, they have restrictions on ownership of such business.

In view of this, for any broadcasting company, Television, or Newspaper company, a minimum shareholding of 50% must be reserved for the indigenous. The same percentage must be reflected in the Board of Directors for these companies.

3.7.8

Gemstones:

The mining and gemstones trade should be classified to give the indigenous an exclusive sector. All small mining and trade should be for the indigenous only. This would greatly reduce the illegal export of gemstones by ensuring that those locals involved get a well laid out market for their stones locally and in international exchanges. The economic potential of this sector is big and promising for the youth of this country.

3.7.9

Security Companies:

All the employees or the vast majority of employees in security companies are indigenous people. The operators of such companies must be people who are honest and with a clean record free from criminal conduct. We cannot claim to be able to vouch for foreigners and even non indigenous on these. The ownership of such companies should be at least 60% owned by indigenous people although a deliberate 100% ownership by indigenous should be encouraged.

3.7.10

Consultancy and Contractors:

Where the capacity for a particular consultancy and/or Construction is available in the country, the government and local firms should be required to use them mandatorily. The TCCIA in consultation with Consultants will retain a data bank on this issue for reference and verification of capacity.

The locals will benefit from capital circulation and speed-up their up-lifting.

Where local capacity is found not to exist, foreign firms or persons or non-indigenous may be allowed to partner an indigenous company, however the local organisations making the request should be required to produce a letter from TCCIA saying so.

3.7.11

Clearing and Forwarding:

This is a job that can and is being done mainly by the indigenous people. Licensing of this should be for indigenous people only.

3.8 **LAND**

Since land is a natural heritage of the indigenous people, all the land in Tanzania should be owned by the indigenous people to be administered by the local Government. No foreigner or a non-indigenous should be given land. However, in a company where the indigenous has at least 50% share holding, then land ownership may be permitted to such a company. The contribution of indigenous investors in partnerships or joint ventures may primarily be land. Accordingly, land should have value and remove the anomaly from the current situation where land has no value. This situation of land value obtains all over the World except in a few countries of the world. The land ownership confinement to natives also obtains in most other countries of the world.

3.9 **JOINT VENTURE TO ENCOURAGE PEACE.**

Joint Ventures or partnerships should be encouraged between the ethnic minority and the indigenous in order to facilitate cooperation, understanding, and a long term build up of cordial relations for a lasting peace among the groups.

3.10 **PARTICIPATION OF THE INDIGENEOUS IN ECONOMIC DEVELOPMENT.**

Whatever efforts that shall be made to develop the indigenous entrepreneurs these must be such and so applied that the process does not put breaks on the growth of other groups. Indeed the well established ethnic minority should be encouraged and assisted to expand their operations and if possible assist them to step into the multinational arena to generate foreign exchange for Tanzania, to create employment and develop interlinkage domestic economic activities by giving subcontracts to the indigenous entrepreneurs.

CONCLUSION

The issue of economics has no ideology. Whether it is a socialist or capitalist system one common goal of every nation is to create wealth for the benefit of their people. The need to create wealth is necessary to develop self reliance to a country and by so doing to ensure dignity to it's people.

With the majority of the population involved in activities more than producing basic needs, then we shall have set ourselves on a course of jobs and wealth creation. We must lay a strategy for our people to think positively on creating wealth and owning wealth. Unless this is done the massive need for jobs will not be achieved. The positive psychological attitude towards wealth must be implanted in our people. We must stop thinking wealth is unwanted or unnecessary.

TCCIA, given the necessary backing by the Government, strengthened in terms of resources to carry out the indiginisation process to redress the inequitable concentration of economic power in the hands of a "mobile" minority ethnic group and at the same time not to discourage the ethnic minority by denying them the right to participate actively in the economic development of Tanzania, an unfavourable political and economic climate may be averted. Tanzania's respectable international image will be maintained at an even higher level than it is now after taking such measures. The World Banks report of 1993 is telling us that what we never intended or wished is in fact happening - They said: **"However, the indigenous private sector has been slow to develop, and there are growing concerns over a perceived *Asianization* of the economy..... Greater attention should have been given earlier in the reform program to strengthening indigenous entrepreneurship in particular, and the private sector in general."**

The general rule in the country should be that **“we have a responsibility to manage the economy of our country and henceforth determine our direction and destiny.”** We cannot achieve this without putting the economy in the hands of the majority committed to die here. Every business that can be managed effectively by the indigenous people must be owned by them and all of us must ensure we work towards this goal whether by legislation or not. From the over 30years experience, we cannot representative of people have to give more serious consideration to this matter.

When we take these necessary steps, therefore, we shall be correcting a situation that everyone wonders why we have not all along addressed ourselves to it.

Since there is no transparent External and Internal Trade policy TCCIA is willing to collaborate with the government to work out a trade policy that will guarantee both efficiency and equity so that the majority indigenous and the minority ethnic group can co-exist in an environment of long term peace and tranquillity. The policy will focus towards maximisation of the utilization of our human and natural resources and the foreign exchange earning in order to reduce the existing trade in balance of payment deficit and at the same time provide an environment for an efficient flow of goods and services in the domestic market.

We need this for a more stable future of our concetry and well-being of its economy by use of our resources to develop ourselves.