

MONEY MANAGEMENT IN NDC

- THE NATIONAL DEVELOPMENT CORPORATION -

A STUDY OF FOUR FIRMS IN ARUSHA AND
KILIMANJARO REGIONS OF TANZANIA

By

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A Thesis

submitted in part fulfillment for the degree of
Master of Business and Administration (M.B.A)
in the University of Nairobi

NAIROBI

November 1973

This Thesis is my original work and has not been
presented for a degree in any other university

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This Thesis has been submitted for examination
with my approval as University Supervisor

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ACKNOWLEDGEMENT

I wish to thank the Co-operative College of Moshi for releasing me from duty and providing for a bursary for graduate studies, part of which forms this thesis. Mr. L. L. Mtalo, Group Training Manager of NDC kindly gave me an introductory letter to the management of the firms concerned. The co-operation, and openness of the management and workers of Tanzania Tanneries Limited, Tanzania Bag Corporation, East Africa Kenaf Industries Limited and General Tyre East Africa greatly encouraged me in my field work. Greater help could not be expected from people so busy in their work. Comments I received from members of the Faculty of Commerce and Graduate Students in a seminar in which I presented the preliminary proposal of this thesis and separate discussions with Professor Daniel McDonald, my thesis supervisor, have been very useful guidelines to this final version of my thesis.

2.0	The Companies	13
2.3.1	Tanzania Tanneries Ltd. (TT)	15
2.3.2	Tanzania Bag Corporation (TBCO)	15
2.3.3	General Tyre East Africa (GTEA)	16
2.3.4	East Africa Kenaf Industries Ltd. (EAKIL)	16
3.	<u>Hypotheses and Method of Study</u>	17
3.1	Hypotheses	17
3.2	Method of Study	17
4.	<u>The Questionnaire</u>	18
4.1.0	Definition of Money Management	18
4.2.0	Scope of Questionnaire and Interpretation of questions	19
4.2.1	Goal Definition and Specification	19
4.2.2	How Money Features in Day to Day affairs of top management	21
4.2.3	Criteria for Selection of a Project	23
4.2.4	Financing of project	25
4.2.5	Finance Planning and Control	27

TABLE OF CONTENTS

	<u>PAGE</u>
Acknowledgement	I
List of Tables	V
List of Diagrams	VI
Abstract	VII
<u>CHAPTER</u>	
1. <u>Introduction</u>	1
1.1 Place of Money in Tanzanian Policies	1
1.2 Purpose of Study	4
2. <u>NDC - The National Development Corporation</u>	4
2.0.0 Introduction	4
2.0.1 Background	4
2.1.0 The Goals of NDC	7
2.2.0 Important Relations	8
2.3.0 The Companies	13
2.3.1 Tanzania Tanneries Ltd. (TT)	15
2.3.2 Tanzania Bag Corporation (TBCO)	15
2.3.3 General Tyre East Africa (GTEA)	16
2.3.4 East Africa Kenaf Industries Ltd. (EAKIL)	16
3. <u>Hypotheses and Method of Study</u>	17
3.1 Hypotheses	17
3.2 Method of Study	17
4. <u>The Questionnaire</u>	18
4.1.0 Definition of Money Management	18
4.2.0 Scope of Questionnaire and interpretation of questions	19
4.2.1 Goal Definition and Specification	19
4.2.2 How Money Features in Day to Day affairs of top management	21
4.2.3 Criteria for Selection of a Project	23
4.2.4 Financing of project	25
4.2.5 Finance Planning and Control	27

TABLE OF CONTENTS (Contd.)

	<u>PAGE</u>
4.2.6 Funds Flow	28
4.2.7 Business Trend	29
4.3.0 Conclusion	29
<u>CHAPTER</u>	
5. <u>Results of the Questionnaire</u>	30
5.0.0 Introduction	30
5.1.0 Goal Definition	31
5.2.0 Goal Specification and basis upon which the company is founded	33
5.3.0 Money as Featured in Top Management	36
5.4.0 Communication within Departments	37
5.5.0 Planning	38
5.6.0 New Projects	39
5.6.1 Goals	39
5.6.2 Alternatives available	40
5.6.3 Methods of Selection of Project	41
5.6.4 Externalities	43
5.6.5 Decision Making	44
5.7.0 Financing of the Project	45
5.8.0 Finance Planning and Control	46
5.8.1 Plans Prepared, Content and Use	46
5.8.2 Who does the Planning	47
5.8.3 Sources and Types of Planning Information	49
5.8.4 Other types of Planning related to Financial Planning	50
5.8.5 Other means of Planning and Control Apart from Forecasted Financial Statements	50
5.8.6 Other Information Needed to Improve Planning and Control of Finances	51
5.9.0 Funds Flow Statement	51
5.9.1 Accounting Ratios based on Horizontal and Vertical Analysis	51
5.9.2 Conclusion	51

TABLE OF CONTENTS (Contd.)

<u>CHAPTER</u>		<u>Page</u>
6.	<u>Comments and Observations on Results</u>	52
6.0.0	Introduction	52
6.1.0	Goal Definition	52
6.2.0	Goal Specification and Company Viability ...	59
6.3.0	Hard and Intelligent Work in Money Management	67
6.3.1	Efficient Project Selection	67
6.3.2	Awareness of Sources of Money	69
6.3.3	Planning and Control of Finance	75
6.3.4	Awareness of Trend of Business	79
6.4.0	Scarcity of Money Concept	81
6.5.0	Application of Subsidiary Company Information Output and Input	86
6.6.0	Other considerations	89
6.6.1	Decision Making	89
6.6.2	NDC Awareness of the Problems and What is to to be done	91
6.6.3	NDC Consultant Group	91
6.6.4	Management Conference	94
7.	<u>Summary</u>	96
7.1	General Summary	96
7.2	Methods used to Manage Money	97
7.3	Problems	99
7.4	Suggested Solutions	101
7.5	Possible areas for Further Study	102
7.6	Conclusion	104
APPENDIX I - The Questionnaire		105
BIBLIOGRAPHY		121

LIST OF TABLES

	<u>PAGE</u>
TABLE 1: Information base upon which the Company was considered viable	33
TABLE 2: Other factors considered in the process of founding the company	34
TABLE 3: Time spent of money management	36
TABLE 4: Communication within Departments	37
TABLE 5: Methods of Selection of Project	41
TABLE 6: Sources and type of planning information	49
TABLE 7: Disbursement of Loans by TIB	83

LIST OF DIAGRAMS

	<u>PAGE</u>
DIAGRAM 1: Important relations in NDC	11
DIAGRAM 2: Simple Money Cycle	18

ABSTRACT

According to the Arusha Declaration money is scarce in Tanzania. While the Declaration dismisses the idea that money is the crucial factor for development, many people both in and outside Tanzania consider the scarcity of money to be a high hindrance to development. If money is not the crucial factor, the resources available in the country are certainly crucial. Yet, there are institutions like NDC which must use money, considered scarce but not crucial, to acquire resources to achieve stated objectives. These issues make the debate on money a hot one, and stirs up an interest to look into money management in Tanzania, which is the subject of this paper.

The Arusha Declaration calls for a combination of hard work and intelligence in using resources to achieve development. To an organization using money, this would imply proper goal identification, efficient project selection, awareness of alternative sources of money, exercise of planning and control, as well as proper use of information available to the company. In all these fields, NDC subsidiary firms seem to be applying hard work, but there is room for improvement. Goal definition falls short of long term expectations. Project selection methods used are not the most efficient. For some companies more use of available information could have been made. All the firms examined have gone a long way in company planning. Great effort has been exercised, and I feel a very good job has been done. But the question remains as to whether these plans will be intelligently carried through. There are clouds to it brought about by the fact that for some firms important things postulated by the plans had not been done by the time stipulated.

The view that money for investment in Tanzania is scarce is a fallacy. Many factors support the view that investment money is not a limiting factor. The Tanzania Investment Bank has had only about 21% of money sanctioned as loans disbursed between the periods 1970 and 1972. The Bank reports seem to

MONEY MANAGEMENT IN NDC - NATIONAL DEVELOPMENT

suggest that there is no shortage of investment money. This suggestion makes some other factors very important in considering money management in Tanzania.

Regions

The shortage of skilled manpower especially in the accounting fields is evident. Although the NDC has recognized shortage of trained manpower and has launched a long term manpower development policy, short term inservice training must be given immediately to the management and indeed the workers of the NDC subsidiary firms. This can best be done in conjunction with a group consultant unit which identifies the training needs and designs the courses appropriate for such needs. The key to better money management in the NDC lies in developing of manpower input of the organization. If this is done better profits can be expected.

obvious that in the past we have chosen the wrong weapon of our struggle, because we chose money as our weapon. We are trying to overcome our economic weaknesses by using weapons, which, in fact, we do not possess".¹ - Arusha Declaration, 5th February, 1967.

The Arusha Declaration is the single most important document in Tanzania and probably the first of its type in the history of the country. It determines all political, all economic and all social behaviour of the country. It dictates the policies for current and future development of the country. A large portion of the document deals with money problems. The document discusses at length the problem of securing money for development purposes. It dismisses the fallacy that nothing could be done without money. It asserts very strongly that money is a result or fruit of development and not the cause of it. Then a number of things which can be done without money, but resulting in development and creation of money, are discussed.

¹ Arusha Declaration. All quotations in this section refer to the Declaration.

- 2 -

Hard work and intelligence are given as conditions of development. MONEY MANAGEMENT IN NDC - NATIONAL DEVELOPMENT CORPORATION OF TANZANIA. Unintelligent hard work would not bring the same results as the two combined.

- A Study of four firms in Arusha and Kilimanjaro

Industries will come Regions will come, but their foundations are the people and their hard work, especially in agriculture. This is the meaning of self reliance. Our

I. INTRODUCTION

1.1 Place of Money in Tanzanian Policies

Slightly over 4 pages out of 12 of the Arusha Declaration is on money. The problem is discussed at length, and leaves no doubt that money is scarce in Tanzania.

"A poor man does not use money as a weapon. But it is obvious that in the past we have chosen the wrong weapon of our struggle, because we chose money as our weapon. We are trying to overcome our economic weaknesses by using weapons, which, in fact, we do not possess".¹ - Arusha Declaration, 5th February, 1967.

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¹ Arusha Declaration. All quotations in this section refer to the Declaration.

"None of this means that from now on we will not need money or that we will not start industries or embark upon development projects which require money. Furthermore, we are not saying that we will not accept or even that we shall not look for money from other countries for our development. This is not what we are saying. We will continue to use money; and each year we will use more money for the various development projects than we used the previous year because these will be signs of our development."

In short, the Arusha Declaration looked at resources available to the nation and declared that these resources could be used to bring about development, without the use of the medium of exchange, the unit of account or that measure of account commonly called money.

National Development Corporation (NDC) uses such resources as land, people (labour) and leadership (largely management). These are the resources that villagers could use in self-help projects of constructing their houses, irrigation ditches, terraces, feeder roads and so forth. Both the villagers and NDC would be tied up by a common policy of socialism and self-reliance. But there is a big difference. NDC has to pay for land, labour and leadership. It has got to have money for wages, salaries, buildings, land, machinery and indeed any other service it may need. The amount of any of these factors available to NDC will depend on the amount of money NDC has for the purchase of the resources. NDC is required to bring about development again measured very specifically in terms of money. Money management is therefore very important in Tanzania for two reasons:

1. According to the Policy paper it is scarce.
2. There are institutions like NDC which must use money to acquire resources for development purposes and which are expected to achieve

development measured in terms of more money resulting from operations.

As we shall note later, NDC is intended to operate efficiently. It is supposed to use its resources (money) in the best way that will maximise achievement of social goals.

1.2 Purpose of Study

In looking at money management in any activity one would seek to:

- (a) Determine the methods used to manage money
- (b) Identify the problem areas and hopefully
- (c) come out with suggested solutions to the problems.

Such was the intention of a study done of four NDC firms:- the General Tyre East Africa, Tanzania Tanneries Ltd., Tanzania Bag Corporation and East Africa Kenaf Industry, during the months of April, May, June and September 1973. The study is by no means exhaustive, nor have all questions one would have liked to answer answered. But I believe, the approach may be useful as a base for analysis of money management in other NDC firms and indeed in as many activities as possible.

2. NDC - THE NATIONAL DEVELOPMENT CORPORATION

2.0.0. Introduction

This brief chapter attempts to give a summary answer to the question "What is NDC?" The main objective is to identify the goals NDC is trying to achieve and hence deduce goals for its subsidiaries. Relations of NDC and subsidiary companies are briefly stated. Finally a brief description of the subsidiaries examined is given. Some of the information in this brief chapter has been drawn from the Company's Annual Reports.

2.0.1 Background

National Development Corporation, NDC, is the largest

single business organization in Tanzania. It is the one with the largest spread of interests. "NDC occupies the central position in the economic development of Tanzania. In 1971, the NDC employees accounted for nearly 40% of all employees in the manufacturing sector and earned about 109 million shillings in wages. The total turnover of the NDC group amounted to some 1,000 million shillings, i.e. about 6% of the Gross National Product. The industrial sector is contributing already to the economy at twice the rate of other sectors combined, growing at 10% per annum compared with overall rate of growth of 5%."²

NDC was first established by an Act of Parliament in 1962 as Tanganyika Development Corporation (TDC). In 1965 TDC was reconstructed to absorb Tanganyika Agricultural Corporation and was renamed National Development Corporation. In subsequent re-organisations and rationalisation of the parastatal sector in Tanzania, several other parastatal organizations have been shaped and removed out of NDC, culminating into the promulgation of Public Corporations Act (No. 17, 1969) in which NDC was reconstituted with clearly defined aim of promoting manufacturing, processing and mining industries. Subsequent formation of State Mining Corporation has left manufacturing and processing as the chief concern of NDC at present.

NDC is wholly owned by the Government. Its Board of Directors is appointed by the Government.

Outlining the role of NDC before Parliament in 1965, President Nyerere said, "...NDC is a bridge between private and public investment NDC is not only a government investor, it is also a socialist organization, for it is people's institution of economic ownership and expansion. All its profits are reinvested: it pays taxes to treasury like any other company. Its job is to achieve the greatest possible growth in our economy."³

² Jenga 14, 1973

³ Freedom and Socialism, p. 42

In opening a new National Assembly the same year, the President saw the role of NDC as establishing industries ranging from large modern ones of international character to small very local industries typical of Tanzanian situation, as the country need all these types. By 1966 the Government had specifically instructed NDC to put more emphasis on investment in the public sector.

The Arusha Declaration of 1967, greatly expanded the role of NDC and clearly defined its areas of operation. The Declaration puts the major means of production under the control and ownership of Tanzanians. It states, "The major means of production are the land, forests, mineral resources, water, oil and electricity; newsmedia, communications, transport, banks, insurance, import and export trade, wholesale business, iron and steel, machine tools, arms, motor car, cement and fertilizer factories, the textile industry and any other big industry on which a large section of population depends for their living or which supplies components essential for other industries; large plantations especially those which provide essential raw materials to important industries".⁴

"In its practical effects, the Declaration establishes three main sectors of investment. First wholly owned state enterprises covering banking, insurance, major import-export houses and major grain milling organisations.

"Second state controlled enterprises classified as major means of production. NDC is concerned with promoting development in this category. It may do so either by itself or in partnership with private firms. Such partnerships permit investments of up to 50% of equity by the firm concerned as well as the provision of expatriate management skills where these are required."⁵ In this category for 3 years NDC faired

⁴NDC Annual Reports, 1969, 1970 and 1971

⁵ Arusha Declaration, February, 1967.

as follows:-

1969 NDC	had	31 Partners	of which	25 (83%)	were foreign from	15 countries
1970 NDC	"	35	"	"	"	25 (71%) " 13 "
1971 NDC	"	34	"	"	"	26 (78%) " 11 "

"The third sector lies outside state ownership and state control. This comprise those enterprises not classified as major means of production and therefore open to unrestricted private investment. NDC also participates in this sector." ⁶

In this sector for three years NDC faired on as follows:-

1969 NDC	had	15 Partners	of which	12 (80%)	were foreign from	8 Countries
1970	"	"	16	"	"	" 8 (50%) " 7 "
1971	"	"	14	"	"	" 11 (80%) " 9 "

With this background, we can now attempt to identify the goals of NDC. As stated elsewhere in this paper, I believe the goals of an organization direct its actions and behaviour. We are looking at money management in NDC. Clear insight to this is possible only if we know the goals that the NDC is trying to achieve.

2.1.0. The Goals of NDC

Available evidence suggests that making the highest profits given the constraints under which it operates, to be the main goal of NDC. The term "highest profits" may be unpopular to some due to the ideological contentions held by some people that profit maximising behaviour of firms results in negligence of, or is done at the expense of other social goals. The term may be unpopular to others because of the problem of defining the maximum or highest profits. This latter camp has a number of modern economic theorists.

6 NDC Annual Reports, 1969, 1970 and 1971

Hebert Simon, for instance, has rejected profit maximising behaviour of a firm in favour of "satisficing behaviour".⁷ I do not wish to dwell on any of these controversies. I believe it is the duty of the state to determine the framework and policies within which firms, private or public, will operate. The framework and policies provide constraints within which every enterprise has to operate. Given these constraints, different firms given the same amount of resources will make varying amounts of profits, depending on the ability of each to mobilise the resources at its disposal. Constraints upon a firm influence costs and revenues which can be accounted for and which can be measured. Under such framework the case against "highest profits given the constraints" either on the basis of ideology or measurement, waters down. Let us now examine the evidence we have for this assumption in NDC. The 1964 Act which became effective in January 1965 with the birth of NDC states:

"In carrying on its business, the Corporation shall have regard to economic and commercial merits of any undertaking it promotes, finances, develops, manages, or assists and the economic position and potentialities of Tanganyika as a whole and shall use its best endeavours to ensure that its business as a whole is carried out at a net profit taking one year after another."⁸

The Arusha Declaration does not seem to have affected the commercial goals of NDC. Right after the Declaration on 28th February, 1976, President Nyerere opened the extension of the Tanzania Breweries, a subsidiary of NDC. In his speech the President spelt out the post Arusha Declaration government policy regarding NDC. I will quote the relevant sections of the speech here.

7 See for instance H. A. Simon (1959), Theories of Decision Making in Economics and Behavioral Science in "Managerial Economics" edited by G.P.E. Clarkson (Penguin).

8 Act of Parliament, December 1964 - Enactment of NDC

"Certain things follow from this. It follows that we want the enterprises we control to be efficient We shall want them to expand as and when this becomes economically feasible we shall desire to co-operate with all those whose expertise or financial capacity can be of service to our nation If at a later date Co-operatives or NUTA wish to participate, they will make a normal commercial approach through NDC and the matter will be settled on willing buyer, willing seller basis. And if any private firm wishes public participation, the procedure is the same We recognize the financial interest of our partners. We recognize that they will wish the firm to make a profit and our answer is that we too desire these firms to run at a profit.and finally it is the interest of Tanzanians that all the firms should be efficiently run. Their management must be good. Their workers must play a full part in securing high production. Industrial discipline is an essential part of this process and so is the fact that the managers should be people of skill and experience."⁹ Subsequent speeches by different ministers seem to confirm this firm commercial operating criteria. The management of NDC also have accepted and are aware that they must operate at a profit as they state in their Annual Reports of 1969, 1970, and 1971 that "NDC is intended to function as a profit making organization. It is charged to do all such acts and things as may be necessary to uphold and support the credit of the Corporation and to obtain and to justify public confidence, and to avert or minimise any loss to the Corporation."¹⁰

2.2.0 Important Relations

We have looked at the goals of NDC as a whole. Let us remember NDC has many subsidiary companies, all operating as profit centres. Since the criteria by which the Government judges the performance of NDC is profit making, we can plausibly

⁹ Nyerere, Uhuru na Ujamaa, Freedom and Socialism

¹⁰ Annual Reports, 1969, 1970 and 1971.

deduce that NDC itself will judge its subsidiaries by the same criteria. We shall therefore assume that the goals of subsidiaries do not conflict with those of the Corporation. These are strong conclusions subject to further questioning. Let us inquire more into these conclusions for they are fundamental to the type of analysis we want to make. As we have seen, NDC activities are very diverse. The subsidiaries are engaged each in a business of its own, producing different products, with each company its own capital structure. Even where the products are apparently similar, as is the case with the Textile Mill Companies, there is no relationship between one firm and another. Apart from profits, that is, earnings on operations, there appears to be no other logical base upon which the holding company can evaluate the performance of its subsidiaries. In his study Ingemund Hagg concludes "my impression is that there does not seem to be any noticeable inconsistencies between the goals (as orally stated) between the NDC and the companies."¹¹ The Hagg study was done through a personal interview with management of four NDC companies. The Director of Planning and Finance in NDC describes the general picture of NDC presented in Hagg's report as "a correct one."¹²

Let us look at other relations as well. We shall also assume that the private partners with NDC whether local or foreign aim to make profits. At this point I also suggest that any financiers, in this case mainly the banking institutions, will lend to NDC money at a profit. Indeed the Tanzanian Investment Act, 1970, Section 12(a) states - "The Bank shall be guided by sound banking principles in its operations and shall finance only economically sound and technically feasible projects."¹³ So in NDC, we have at least four important relations where a company is wholly owned by the Corporation or five relations where there is a minority ownership. In so far as the main objective of profit making is concerned, these relations

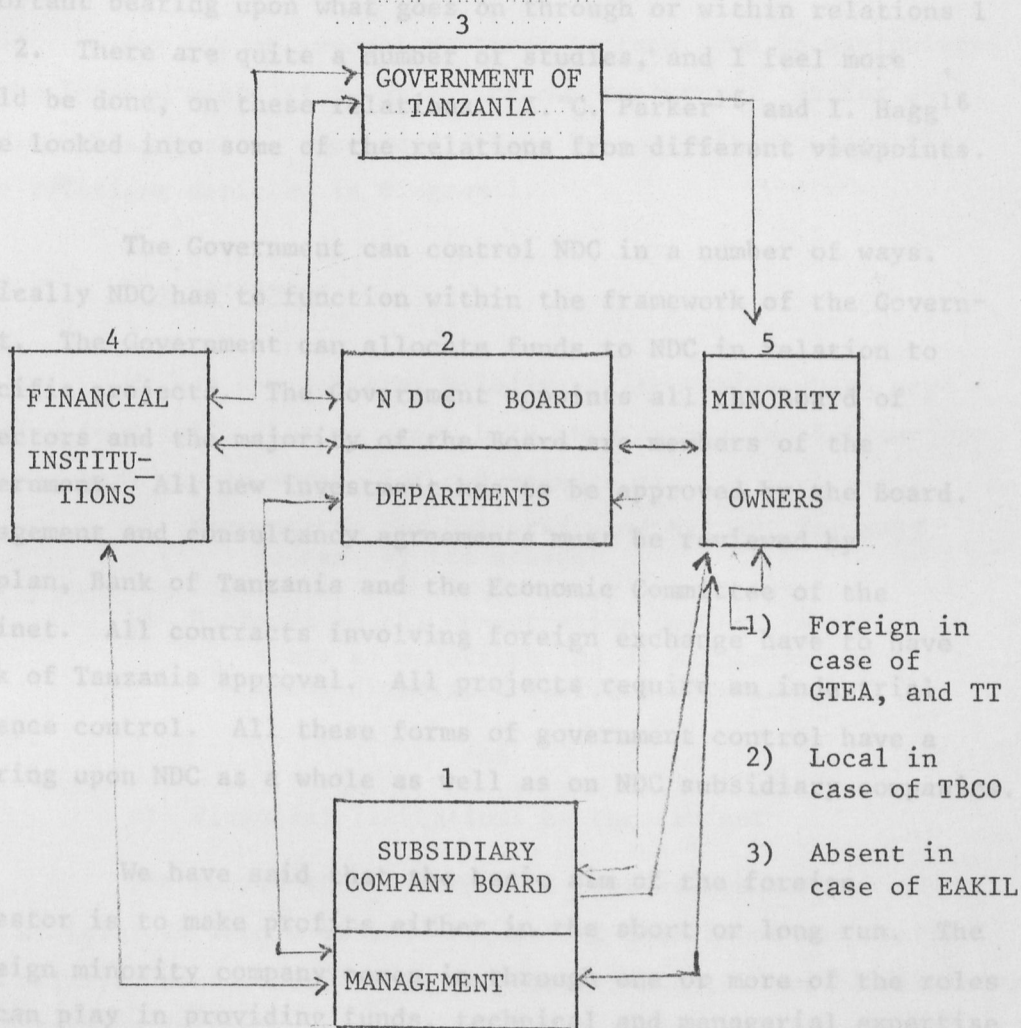
11 Ingemund Hagg: Some State controlled Industrial Companies in Tanzania. Research Report No. 8, p.13

12 Ingemund Hagg, p. 7

13 Tanzania Investment Bank Act - 1970

do not conflict. The following diagram summarizes the relations.¹⁴

DIAGRAM I - IMPORTANT RELATIONS IN NDC



The minority owner company relationship may be very important if the minority owner happens to be a foreigner. This is because often apart from capital, these minority owners supply management services. In fact, they often manage for NDC at a management fee provided for in management contracts, signed between the two parties concerned and these days reviewed by the Government.

¹⁴ Diagram is a modification of one by Ingemund Hagg, p. 5.

Although my study is mainly limited to relations 1 and 2, and especially to what happens within relation 1 as depicted by Diagram 1, I feel it is important at this point to discuss very briefly some of the other relations because they may have important bearing upon what goes on through or within relations 1 and 2. There are quite a number of studies, and I feel more could be done, on these relations. I. C. Parker¹⁵ and I. Hagg¹⁶ have looked into some of the relations from different viewpoints. five relations depicted in Diagram 1.

The Government can control NDC in a number of ways. Basically NDC has to function within the framework of the Government. The Government can allocate funds to NDC in relation to specific projects. The Government appoints all the Board of Directors and the majority of the Board are members of the Government. All new investment has to be approved by the Board. Management and consultancy agreements must be reviewed by Devplan, Bank of Tanzania and the Economic Committee of the Cabinet. All contracts involving foreign exchange have to have Bank of Tanzania approval. All projects require an industrial licence control. All these forms of government control have a bearing upon NDC as a whole as well as on NDC subsidiary companies.

We have said that the basic aim of the foreign investor is to make profits either in the short or long run. The foreign minority company comes in through one or more of the roles it can play in providing funds, technical and managerial expertise or supply of equipment. We often look at earnings from operations as the only way through which such minority owners can achieve their profit objective. I agree with Parker¹⁷ that there are other ways of making profits among which are:-

15 I. C. Parker - NDC Investment Policy and Its Relations to National Planning Objectives - ERB - 1970

16 I. Hagg - cited earlier

17 I.C. Parker - NDC Investment Policy and Its Relation to National Planning Objectives.

- a) Sale of Equipment
- b) Supply of spare parts and raw material
- c) Technical, managerial and marketing arrangements
- d) Gaining of established market positions in the country.

Any one or several of these factors can be manipulated by the foreign minority owner to its own advantage. As far as profit making goal is concerned, there is no conflict among the five relations depicted in Diagram 1.

2.3.0 The Companies

We can now describe briefly the companies which were studied in detail. Let me state here that Arusha and Kilimanjaro Regions were chosen purely for convenience of

- a) Nearness to the University of Nairobi for easy access by the student
- b) Nearness to the Co-operative College, Moshi where an understanding of management of local firms will facilitate teaching

and

- c) Financial limitations by the student

The choice of the companies however was done by an NDC official to whom a letter requesting assistance was written. The official recommended three companies. Due to some difficulties of obtaining information from one of the companies, I contacted the Manager of Tanzania Bag Corporation for interview and discussion similar to that carried out in some other companies. At this point one may question the bias this sample may have. One may ask how representative of NDC firms in the two Regions are the four firms interviewed? How representative are they of NDC firms throughout the country?

NDC Annual Report of 1971¹⁸ has a list of NDC companies

¹⁸ NDC Annual Report 1971, p. 24-25.

In Arusha and Kilimanjaro Regions the companies were:

1. East Africa Kenaf Industries Ltd.
2. Tanganyika Meershaum Corporation
3. Tanzania Tanneries Ltd.
4. General Tyre E.A. Ltd.
5. Tanzania Bag Corporation Ltd.
6. Tanganyika Extract Co. Ltd.
7. Tanzania Germstone Industries Ltd.

As a result of rationalization of parastatals, Tanganyika Meershaum Corporation and Tanzania Germstone Industries Ltd. have been transferred to the State Mining Corporation. So of the 5 NDC companies in the two regions, 4 were interviewed. Given the small size of the company left out, a sample comprising of 80% of the population is by any standards a good one. Of course, NDC activities are not entirely limited to these companies. There are, for instance, shop branches of NATEX, a marketing organization for textiles in Tanzania. There is also a branch of Tanzania Breweries Ltd. But for all these branches of some other NDC subsidiaries, decisions are made elsewhere. For the two examples given, decisions are made in Dar-es-Salaam.

It is more difficult to justify treatment of the four firms as a fair sample of NDC firms throughout the country. Using the same list of companies as used above, there are strong points to assert that it is. Let us note that all the four companies are engaged in different business, typical of NDC diversity. It is true that the EAKIL and TBCO are producing bags. But their history are different. Their bases, one using low grade sisal otherwise a waste material, and the other, Kenaf, an entirely new raw material produced at a particular place after nationwide tests, are entirely different. By size, looked from the point of view of authorized share capital, EAKIL (Sh.17,000,000) and General Tyre E.A. Ltd. (Sh. 30,000,000) are among the 8 biggest NDC firms. The TT and TBCO by size are typical of the majority

of the NDC firms. Let us note another factor, Kilimanjaro and Arusha form part of the Northern Area which includes Tanga.. This area is second only to Dar-es-Salaam area in terms of industrial location advantages. So outside Dar-es-Salaam, this is the area next favoured by industries. The bulk of NDC firms are in Dar-es-Salaam due to pure historical placing of Dar-es-Salaam as the capital and the many locational advantages present. Most of NDC studies done by the University or outside parties must have been done for firms in Dar es Salaam.¹⁹ Although my study is different from the others, it may be interesting to note any similarities or differences in findings and conclusions where the different studies interlock. For this reason, and those stated above, I consider the sample particularly good.

2.3.1 Tanzania Tanneries Limited (TT)

TT is a joint venture of NDC (75%) and Ehrenberg of Sweden (25%). The company was incorporated and became a member of NDC group in February 1968. The company, situated at Moshi, tans hides and skins into semi-finished and finished leather products for both export and local markets. Present employment is 140 people. The company is managed by Ehrenberg and Sons (Sweden) under a management agreement with NDC. Share capital as at present, 1973, is 6 million shillings. The Company started operation in September 1969.

2.3.2 Tanzania Bag Corporation - TBCO

TBCO was incorporated in July 1966 and started operation in March 1968. Formally the company was owned by NDC (40%), Tanganyika Coffee Curing Company (40%) and an Italian Company (20%). Now NDC has purchased the shares of the Italian Company. The company's share capital is at present (1973) 7.5 million shillings. The Company is managed by NDC. It manufactures sisal bags at its factory in Moshi.

19 For instance, Ingemund Hagg's Study cited earlier

2.3.3 General Tyre East Africa (GTEA)

GTEA was incorporated in 1969. It is owned jointly by NDC (76%) and General Tyre International (USA - 24%). The company, with offices and factory at Arusha, is the sole tyre and tubes manufacturing firm in Tanzania. General Tyre International is a multinational company of which GTEA is one of the 22 manufacturing companies throughout the world. GTEA is managed by General Tyre International under a Management Agreement with NDC. Share capital (1971) was 30 million shillings. The company's sales are both local and export.

2.3.4 East Africa Kenaf Industries Ltd.(EAKIL)

EAKIL wholly owned by NDC, is an Agro-industrial complex integrated operation of Kenaf Estates at Kahe, (18 Kilometers from Moshi) and Kenaf bag factory at Moshi. The company was established for the sole purpose of manufacturing hessian bags as a substitute for jute bags, initially for domestic use, but also for export as opportunity arose. It is the first large scale Kenaf growing venture in East Africa. Production of Kenaf was first tested throughout Tanzania before the establishment of the company at Moshi. Share capital in 1972 was 20 million shillings. The company is managed by NDC itself and until very recently it was still a project in the development phase.

3. HYPOTHESES AND METHOD OF STUDY

3.1 Hypotheses

In analysis of the results of the questionnaire, the following hypotheses are used.

Hypothesis 1

NDC firms state their objectives in terms of desirable achievable and measurable results.

Hypothesis 2

NDC firms management exercise hard work and intelligence in managing money. This hypothesis implies:

1. In selecting its projects, NDC uses the most efficient methods, i.e. capital budgeting.
2. The NDC subsidiary companies management is fully aware of alternative sources of money and the cost of securing it.
3. NDC does most thorough planning and control of finance. They have detailed cash flow statements.
4. Management of subsidiary companies know the trend of their business.

Hypothesis 3

Money for investment in Tanzania is scarce and this is impeding progress.

Hypothesis 4

NDC subsidiary firms relate their information input and output to all relevant subsystems within their environment.

3.2 Method of Study

The main basis of this study has been drawn from visits to the firms concerned. Details of discussions held at and the questionnaire used are given later in this thesis. NDC Annual Reports and NDC quarterly publication, JENGA, have been invaluable sources of information. The Daily News of Tanzania, papers of Economic Research Bureau of University of Dar-es-Salaam, Tanzania Investment publications and Nyerere's writings have shed a lot of light to my study. A bibliography is given at the end of this thesis.

4.

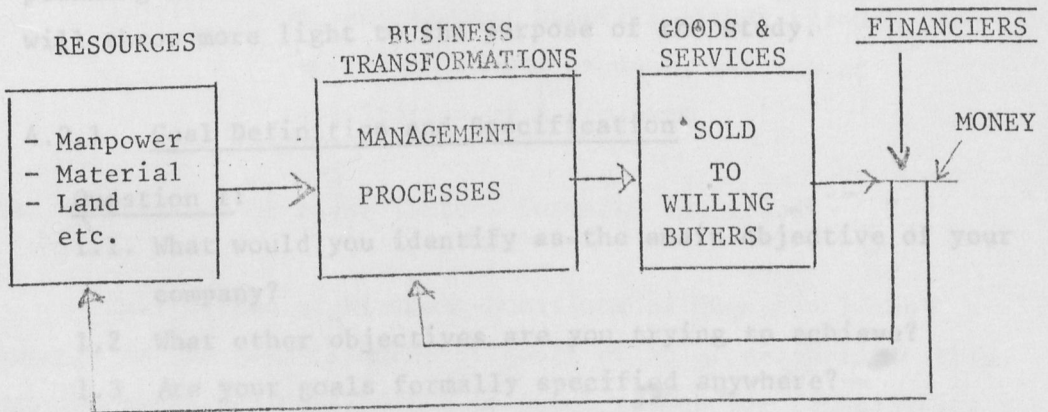
THE QUESTIONNAIRE

4.1.0 Definition of Money Management

Money is an expression of value. Business exists to create and deliver value satisfaction at a profit. In the act of creation and delivery, a business uses up resources such as labour, technology, information, raw materials, land and machinery. If continuity is to be maintained, these resources must be replenished. But how can we measure resources? How can we compare the various elements of different nature forming productive resources on one hand with products and services some of which are intangible? We need a common denominator - a unit measure of value. This is the role money plays in business and indeed in whole economies.

Money as a unit of account enables us to reduce all our resources to a common denominator. As a medium of exchange it enables us to determine the relative values of different resources we are using. As a purchasing power it enables us to obtain from society the resources we need, and in a similar manner, transform the services and goods we have produced into money. A simple cycle may illustrate this.

DIAGRAM 2 - Simple Money Cycle



To obtain resources then, an enterprise has to have money. The outcome of using the resources is usually measured on money terms. So it is the interest of any management to organize resources such that the process of transforming them into money is maximised. How much money the company made is the interest of the owners of business as well as management. How much money was made depends on how the resources were utilized and the ability of a company to sell its products. It is possible for a company to sell all its products at a profit and still fail. This occurs where sales have not been transformed into liquid money to enable the firm complete the cycle.

(b) Political Decision:
In the above context then, money management is taken to mean all those activities of management that enhance the company's ability to generate liquid cash for current operations, future expansion and yield to owners a satisfactory return to induce them to remain willing to make their funds available for the company. This definition is very wide. It involves every aspect of business. With this in mind, we can examine the questionnaire used in looking at money management in NDC.

4.2.0 Scope of Questionnaire and Interpretation of Questions

The questionnaire covers a very wide range of management activities in the latter's endeavour to earn money. The aspects covered range from goal conception, goal definition, planning and control. A brief examination of the questions will throw more light to the purpose of the study.

4.2.1 Goal Definition and Specification

Question 1:

- 1.1. What would you identify as the main objective of your company?
- 1.2. What other objectives are you trying to achieve?
- 1.3. Are your goals formally specified anywhere?
- 1.4. What is your business?

1.5 What were the factors that led to the founding of your company?

Company was incorporated on

It started operation on

Initial Capital Authorized Issued

NDC %

Other Parties %

..... %

1.6 The company was considered viable and formed on the basis of the following information:-

(a) Sheer guesswork

(b) Political Decision;

(c) Market Analysis and projection

(d) Financial Analysis and projections

1.7 In the process of founding the firm, what weight was given to the following factors (please explain in detail and if possible supply underlying analysis).

(i) Commercial profitability

(ii) Effect of project on Government revenues

(iii) Cash flow return to NDC

(iv) Effect on foreign exchange and balance of payments

(v) Overall national benefits (as measured in shadow prices).

(vi) Capital employed per worker

(vii) Potential linkage effect

(viii) To confer regional benefits either through provision of needed product, service or utilization of a product.

1.8 Were any of these factors formally specified?

Half of the eight minor questions of Question 1 concentrate on the establishment of goals of an organization. This question seeks to identify the original reason for founding the company and the present company mission. The other half relates

to the other factors which narrow down the scope of business activity and therefore necessitate goal specification by business.

The way a business defines its goals is vital to its survival. Both Peter Drucker²⁰ and Theodore Levitt²¹ cite many examples of business firms which died because of poor definition of their business. These firms did not see themselves in terms of customer needs. They defined their objectives in terms of their products and services, such that when different and better means of satisfying the same needs as their products emerged, the firms had to die. A leather firm may be making a lot of money today because leather shoes are in demand. If people switch into canvas or cotton shoes such a firm will have to go out, if it has defined its mission in terms of leather production. It will no longer have the ability to make money. Management starts with setting of goals.

4.2.2. How Money Features in day to day Affairs of Top Management

Question 2A:

2A.1 Approximately how much time do you spend on issues dealing with direct expenditure of money?

2A.2 The time spent on money matters can roughly be apportioned as follows:

- (i) Day to day operations
- (ii) Expansion
- (iii) New production line, or new method
- (iv) Replacement of equipment
- (v) Others (please explain)

20 Peter Drucker - The Practice of Management

21 Theodore Levitt - Innovation in Marketing

2A.3 Which department within your organisation do you communicate most with:

- (a) Production Department
- (b) Marketing Department
- (c) Personnel Department
- (d) Accounting Department
- (e) Others (please explain)

(In answering please rank 1,2,3,.... 5 etc., 1 being the department you communicate with most and 5 the least with).

2A.4 In which area does your company do most careful and comprehensive planning?

- (a) Production
 - (b) Marketing
 - (c) Personnel
 - (d) Accounting/Financial
 - (e) Others
- (Please rank as above)

2A.5 Since inception how many projects has the company undertaken?

(Please take a project to mean,

- (a) Expansion of company operations
- (b) Replacement of a major part of equipment
- (c) Introduction of a new product line or service.

Question 2A attempts to identify the proportion of time spent by top company executive on matters directly concerned with money. Does the manager, for instance, spend all his time on immediate cash, thus overlooking other activities which result in tomorrow's cash flows? With what departments does top management communicate most with, and where does the company do most comprehensive planning? All these factors have a bearing on present and future company cash flow.

4.2.3 Criteria for Selecting A Project

The questions in this section have been related to each of the projects that a company had undertaken since it became operational. Where a company had not taken any new projects the management was requested to answer the questions with respect to the founding of the company.

Question 2B:

- 2B.1 (a) Precisely what was the aim of the project?
(b) What other alternatives were there for the same goal?
- 2B.2 What was the expected net benefit, nature and amount of return on investment
(a) Quick intuitive analysis
(b) Payback
(c) Rate of Return on investment - various versions
(d) Internal rate of return
(e) Net present value
(f) Others (please explain).
- 2B.4 If you use methods (d) and (e) above, please fill in the following table.
- | | | | | | |
|-------------------------|---|---|---|---|---|
| Rate of discount | | | | | |
| Length of Project | | | | | |
| Period | 0 | 1 | 2 | 3 | 4 |
| Initial outlay | | | | | |
| Subsequent cash outflow | | | | | |
| Subsequent cash inflow | | | | | |
| NPV of Project | | | | | |

- (a) Prior to making the decision
(b) After the decision has been made

2B.5 For each part of the project please supply the following information.

	<u>Year</u>					
	1	2	3	4	5	6
(a) Expected Profit						
(b) Taxes paid to Government						
(c) Surplus to be invested						
(d) Foreign Exchange - Required						
(e) Number of workers						
(d) Contribution to nation (shadow prices)						

2B. 6 What other areas of the economy does the project affect?

2B.7 How and by which areas of the national economy is the project affected?

- 2B.8 In making decisions as to whether to carry out a project or not, the management
1. Can do it alone
 2. Must consult NDC Head Office
 3. Must get approval of Bank of Tanzania
 4. Must get approval of Economic Committee of the National Economic Council
 5. Follows the following procedure (please explain)

2B.9 (In case the management of an NDC subsidiary company makes decision with consultation with other parties)
What say has the management of a subsidiary on decisions;

- (a) Prior to making the decision
- (b) After the decision has been made?

The set of questions in Question 2B examine carefully the test a project has to undergo before being accepted by management. A project in the Questionnaire has been taken into its widest sense to mean expansion of company operations, replacement of major part of equipment or introduction of a new product line. There are many ways of evaluating projects. Some are better than others since they pick projects which yield more in terms of financial returns. Others are poorer in that they fail to distinguish the best alternative available given three or four alternative courses of action apparently similar to each other in terms of initial expenditure and final outcome. Payback for instance is very inferior to discounted cash flow in capital budgeting decisions. Finally, the Questionnaire seeks to identify the externalities of the project and who has the final decision as to whether a project should pass or not.

4.2.4. Financing of the Project

Question 3 :

3.1 Please rank in descending order the sources of your finances 1,2,3, etc. 1 being the most important. Rank as 0 where the source is not applicable to your company.

A. External Sources: Long-term Finance - Capital Expenditure

Foreign Capital, e.g. (World Bank

(Shareholders

(Company

Bank Loan:

- Tanzania Investment Bank (TIB)

- National Bank of Commerce (NBC)

- Rural Development Bank (RDB)

- Housing Bank

- Permanent Housing Finance Company

- National Insurance Company

- National Provident Fund

- NDC - Head Office

- Government - Treasury Grants

- Industrial Promotion Service

- Capital Equipment Manufacturers.

B. Internal Sources - Capital Expenditure

C. Working Capital - Short-term Finance

- (a) Bank overdraft
- (b) Accounts payable
 - (i) Tax
 - (ii) Dividends
 - (iii) Commissions etc.
- (c) Trade credits
- (d) Other short-term sources

3.2. Of the long-term and short-term sources you have identified, what is the cost of capital - rate of interest?

3.3 What criteria do you use in looking for alternative sources of capital?

Question 3 seeks to identify the manner in which a company finds money for its programmes. Once a company has decided that one of its projects or programmes is viable in that it will yield satisfactory monetary return, how does it go about looking for money to acquire the needed resources? A company has many alternatives. What is the criteria for choosing one source to another? Is management fully aware of the cost of money? Does it have idle resources which could be invested elsewhere to improve the company's overall returns on its assets? To any Tanzanian firm, this is a very important consideration. The Arusha Declaration hammers hard on scarcity of money. One would then wonder if the case was, somewhere within a public corporation subsidiary company, money was lying idle. One would also wonder if given two possible sources of money, the company chose arbitrarily the more expensive of the two sources.

4.2.5. Financial Planning and Control

Question 4: Financial Planning and Control

4.1 Do you have formal financial plans? At whose requests?
Please list the kinds you prepare.

4.2 Who does the planning in your company?

- (a) Top management
- (b) Budget Committee
- (c) Financial Department
- (d) Dictated from NDC Headquarters
- (e) Others, e.g. Planning Committee (please explain).

4.3 Of the following sources of information, which is used most in financial planning? (Please rank)

- (a) Sales forecast
- (b) Selling and Administrative expenses
- (c) Direct labour costs
- (d) Material costs
- (e) Purchasing schedules
- (f) Overhead and maintenance costs
- (g) Capital equipment purchase
- (h) Market and other researches
- (i) External information
- (j) Others (please explain)

4.4. (a) Do you have a forecasted financial statements?

- (b) What are the basic contents of each kind of plan?
- (c) What use do you make of them?

4.5 How does planning in other areas of your company relate to financial planning?

4.6 Apart from the forecasted financial statement, what other means of control do you employ in your company?

4.7 What extra information do you think you need to improve your planning and control of finances?

Business planning is an integrative activity which seeks to maximize the total effectiveness of a company in accordance with the objectives of the enterprise. Control is that function of the system which provides direction in conformity with the plan.²² Objectives of the company cannot be achieved unless money is properly managed. Proper financial planning and control inevitably means planning and control for the entire company. Question 4 therefore seeks to determine the extent to which an NDC subsidiary company does this. It looks into what types of planning exist, who does the planning and what use is made of these plans. It looks into forecasted financial statements as means of control and seeks to identify whether there are other means of control or not.

4.2.6. Funds Flow Statement

Question 5:

5.1. Define funds to include working capital (To be extracted from financial statements later).

Funds are defined to include working capital. The objective of seeking to know the funds flow of a company originates from the insight one gets in looking at the way in which funds were obtained in comparison with the way in which same were utilized. Such statements reveal the ability of firms to meet obligations as they fall due and how business take advantage of investment opportunities as they arise. This was the objective of Question 5.

4.2.7. Business Trend

Question 6:

Collect accounts for horizontal and vertical analysis. Are the expenses falling over the period of years? Is the company's earning ability per shilling invested rising, constant

22 Johnson, Kast and Rosenzweig - The theory and Management of Systems

or falling? Financial performance is a good reflexion of managerial efficiency.

5.0-0 Introduction:

The accounting information will be re-arranged in columns that will permit both horizontal and vertical analysis.

Question 6 seeks to give an insight into the trend of the company. Such questions as are asked are fundamental questions in evaluating managerial efficiency with respect to money management.

4.3.0 Conclusion

I have outlined briefly the reasoning behind the questionnaire used. It is unfortunate that for questions 5 and 6, no information was really available. Nevertheless, all the other questions received near satisfactory answers from all the four companies visited. We have always to work with imperfect and inadequate information. I believe the answers received will give us some insight in money management in NDC. In the next Chapter, we shall look into the answers which were obtained. Comments and observations to the answers are discussed in a later chapter.

4. East Africa Kenaf Industries Limited

I had a brief talk with the General Manager in May. As there was no Chief Accountant, the General Manager assigned one Accounting Clerk and the Marketing and Purchasing Manager the duty of filling my questionnaire. After several visits to the company, I managed to have my questionnaire filled in September. On the whole, the company seemed to be lacking in qualified Accounting staff, which I felt to be so essential for the Company. As I had problems securing information from this company, I had

5. THE RESULTS OF THE QUESTIONNAIRE

5.0.0 Introduction:

Four companies were visited in the months of April, May, June and September. I managed to have discussions with some executives of the companies concerned. As we talked, I filled in the questionnaire. The following companies were visited with the following results.

1. Tanzania Tanneries Limited

I had interviews and discussions with both the General Manager and the Chief Accountant separately. I managed to fill two questionnaires. In addition I had access to the company's year plan, 1973.

2. Tanzania Bag Corporation

I had brief talks with the General Manager. I had an interview and discussion with the Chief Accountant. One questionnaire was filled. I had access to the accounts of the company.

3. General Tyre East Africa

I had a discussion and an interview with the Treasurer. I had a discussion and an interview with both the Controller and his Assistant. I had access to the 1973 Company year plan.

4. East Africa Kenaf Industries Limited

I had a brief talk with the General Manager in May. As there was no Chief Accountant, the General Manager assigned one Accounting Clerk and the Marketing and Purchasing Manager the duty of filling my questionnaire. After several visits to the company, I managed to have my questionnaire filled in September. On the whole, the company seemed to be lacking in qualified Accounting staff, which I felt to be so essential for the company. As I had problems securing information from this company, I had

sought information from elsewhere and this has also been utilized in my remarks and observations.

This chapter summarizes the information which was obtained from these interviews and discussions.

5.1.0 Goal Definition

All the four companies interviewed defined their business in terms of the product they make. General Tyre East Africa's business is "tyre manufacturing". That of Tanzania Bag Corporation Limited is "manufacturing of sisal bags" whereas East Africa Kenaf Industries Limited's business is "manufacturing of bags and hessian cloth as well as production of Kenaf fibre." Tanzania Tanneries Limited defined its business as "tanning" and more precisely as "processing and manufacturing of finished and semi-finished leather products." Having defined their business in terms of the product being made, it is no wonder that most of these companies state their main objective in terms of one or two major variables connected with the product.

Thus in the words of the Chief Accountant the main objective of TT is to utilize hides and skins for local use to meet the demands for local market. The General Manager further elaborated the main objective as:-

- (a) To produce finished chrome upper leather for industrial footwear production in Tanzania.
- (b) To produce wet blue hides and skins for export overseas.

In defining other objectives the company related itself to market problems of the near past. In summary, the other objectives the company was trying to achieve are as follows:-

1. Meet demand for local industry
2. Penetrate Kenya and Uganda markets for finished products

3. Export wet blue and crust leather
4. Organize financial position of the company to yield a good return on investment so that the profits generated may be ploughed back in the company to reduce external debt
5. Attain self sufficiency and help national objective of attaining self reliance. The company aimed at earning more revenue to the government, maximising foreign exchange and increasing employment.

TBCO defined its main objective as to produce sisal bags and in so doing avoid import, thereby saving foreign exchange. Ultimate aim was to attain self-sufficiency in production of bags.

Other objectives of the company have been stated as:-

- a. Attaining maximum production capacity
- b. Maximising profitability of the company
- c. Boosting up the economy of the company
- d. Development of new technology. By new technology, the Chief Accountant meant the actual spinning and weaving of sisal.

The General Tyre East Africa, on the other hand, identified as its main objective "the manufacturing of tyres and tubes to satisfy demand for Tanzanian market. Other objectives were identified as "diversification as opportunity arose."

The main objective of East Africa Kenaf Industries Limited is "to cater for the country's demand for bags and hessian cloth in order to attain self sufficiency." Other objectives were seen as exporting of bags, hessian cloth and fibre.

Three of the companies, namely TT, TBCO and GTEA had their goals formally stated in the company year plan. The Marketing Officer and the Acting Accountant of EAKIL said that the goals of the companies were formally stated, but they thought that this statement was with NDC Headquarters.

5.2.0

Goal Specification and Basis Upon Which

Company is Founded

Regarding the factors that led to the founding of the company, TT, TBCO and EAKIL expressed the desire to save heavy losses in foreign exchange. TT and TBCO had an extra impetus of utilization of local raw material namely sisal, hides and skins. EAKIL raw material base was an entirely new product in the country. General Tyre East Africa was found to meet Tanzanian need for self sufficiency.

Here it may be useful to tabulate answers to questions aimed at goal specification.

T A B L E I

Information base upon which the company was considered viable

	TT	TBCO	GTEA	EAKIL
(a) Sheer guesswork				
(b) Political Decision	Partial			
(c) Market Analysis and Projections	1	1	1	1
(d) Financial " " "		1	1	1
(e) Others - Existing raw materials	1	1		

NOTE: The mark 1 indicates that the particular information was used by the particular company.

T A B L E 2

Other factors considered in the Process of Founding the company.

	TT	TBCO	GTEA	EAKIL
1. Commerical Profit-ability	Yes	Yes	Yes rank 3	Yes- Prime motive
2. Effect of project on Government revenue	Yes	No	No	Yes
3. Cash flow return to NDC	Yes	Yes	No	Yes
4. Effect on foreign exchange and balance of payments	Yes	Yes	Yes rank 1	Yes
5. Overall national benefit (measured in shadow prices)	No, cost not only cri-teria - self suffi-ciency as well	No	Yes rank 2	No, cheaper to import
6. Capital employ- ed per woker	No	No	No	No
7. Potential Link- age Effect	Slightly	No	No	Yes
8. To confer Regional Benefit either through pro- vision of a needed product, service or utilization of a local product	Yes Labour	Yes, Sisal Labour	Yes	Yes, After national survey - Kenaf found to be best grown at Kahe, Moshi

TT, TBCO and GTEA had some of the above factors specified in their feasibility studies or company plans. Though EAKIL said the factors were formally specified, the executives interviewed thought the formal statement was with NDC Headquarters. The Company year plan for 1973 was still in the process of preparation by the Accounting Clerk, then acting as the Chief Accountant.

(See 5.3.0 Overleaf)

TIME SPENT ON MONEY MATTERS

	TT Chief Accountant	TT General Manager	GTEA Treasurer	EAKIL Acting Accountant
1. Approximate percentage of total time spent on matters dealing with direct expenditure of money	70%	20-25%	20%	75%
2. Of the Above	98%	75%	60%	90%
(a) Day to day Operations take				
(b) Expansion			15%	
(c) New Products, Line or method	2%	25%		
(d) Replacement of equipment				
(e) Others				10%

NOTE: The above figures cannot be directly comparable because the positions of the executives interviewed are not the same. Where positions are the same, or even if they were, the degree of comparison would vary because of variation in roles played by executives of

5.3.0

Money as Featured in Top Management

T A B L E 3

TIME SPENT ON MONEY MATTERS

	TT Chief Accountant	TT General Manager	GTEA Treasurer	TBCO Chief Accountant	EAKIL Marketing Manager	EAKIL Acting Accountant
1. Approximate percentage of total time spent on matters dealing with direct expenditure of money	70%	20-25%	20%	75%	33%	75%
2. Of the Above						
(a) Day to day Operations take	98%	75%	80%	50-75%		90%
(b) Expansion			15%		65%	
(c) New Product, line or method	2%	25%				
(d) Replacement of equipment			5%	20%	35%	
(e) Others				5%		10%

NOTE: The above figures cannot be directly comparable because the positions of the executives interviewed are not the same. Where positions are the same, or even if they were, the difficulty of comparison would arise because of variation in roles played by executives of different companies, even where their position names remain the same.

5.4.0

Communication Within Departments

T A B L E 4

COMMUNICATION WITHIN DEPARTMENTS

NOTE: The ranks, 1, 2, indicate the department with which most communication is done

	T T		TBCO	GTEA	E A K I L		
	Chief Accountant	General Manager	Chief Accountant	Treasurer	Chief Accountant	Marketing Manager	
(a) Production Department	2	2	3	2	3	2	
(b) Marketing Department	3	1 } rela- 3 } ted	2	3 } Co. 4 } has 1 } only 3 1 } depts. 1 } Factory 1 } Sales 1 } Accounts	2	1	
(c) Personnel Department	4		4		4	4	4
(d) Accounting Department	1		4		1	1	3
(e) Others	5	5 (Tech- nical Dept.)	5			5 -Shipping -Physical Stock	
- NDC Head Office							
- Financial Institutions - Government Agencies							

5.5.0

Planning

Regarding the areas in which the company does most comprehensive planning TT ranked as follows, I suppose, by the

1. Production
2. Marketing
3. Personnel
4. Accounting/financial and
5. Others

5.6.0. The manager of the company explained that all the above factors were linked together.

TBCO also does planning on all of the above factors every year. Cash flows, revenue and capital expenditure plans are prepared yearly.

The Marketing and Purchasing Manager on one hand, and the Acting Chief Accountant on the other hand, differed as to which area EAKIL does most careful and comprehensive planning. The Marketing and Purchasing Manager ranked the areas as follows:

1. Production
2. Marketing
3. Accounting/Financial
4. Personnel
5. Others - mainly purchasing

The Acting Chief Accountant ranked the areas as follows:

1. Accounting/Finance
2. Marketing
3. Production
4. Personnel

The difference in ranking between the two executives may be interesting, but not surprising, since the company year

plan was not yet ready. The plan seemed to be in preparation when I first visited the firm in May. It was still in the process of preparation, nearing completion, I suppose, by the end of September when I last visited the company.

GTEA has most careful and comprehensive planning on financial matters. Planning begins with sales, and then production plan followed by cash flow plans.

5.6.0. New Projects

Since inception, both EAKIL and TT have not undertaken new projects. In fact, EAKIL has just emerged from the project stage. Presently TT was considering expansion. The General Tyre East Africa had undertaken two new projects, one of which concerned a decision to make its own distribution, while the other concerned introduction of radial tyres. TBCO has undertaken a large expansion project.

5.6.1 Goals

In this section, goals are with respect to the projects undertaken. Where no new projects had been undertaken, the goals are with respect to the initial establishment of the company.

TT is undertaking expansion to increase profitability and to utilize the full capacity with additional capital investment. Here expansion is being undertaken for a specific factor considered a bottleneck for full utilization.

In implementing a project to distribute its own tyres, the General Tyre aimed at

- (a) Having control on distribution system
- (b) To be closer to the customer
- (c) To increase sales revenue by direct sales.

In introducing a new product, i.e. radial tyres, the company aimed to meet demand of Tanzania market for such tyres.

TBCO expanded its operations in order to

- (a) curtail importation
- (b) reduce costs of production by increasing activity

Since no new project has, as yet, been undertaken by EAKIL, the goals with respect to founding the company are those stated earlier in Section 5.1.0

5.6.2 Alternatives Available

Other than expansion, TT had no other alternative to achieve the same goal. Similarly, TBCO had no other alternative. Regarding establishing its own distribution system, GTEA had no other alternative to consider. The only alternative available with regard to its decision to manufacture radial tyres was importing. EAKIL had no other alternative for achieving its goals apart from the course of action it had taken by establishing itself as an agro-industrial complex.

By introducing its own distribution system, GTEA expected to gain a margin of 8½% of sales which had been left to the former distributors. In manufacturing radial tyres, the company expected to earn 10% difference between the cost of imported and locally manufactured tyres.

TBCO expected to offset losses it had been making before. TT was expecting a 5% return on investment after interest charges.

5.6.3.

Methods Of Selection of A Project

T A B L E 5

METHODS OF SELECTION OF A PROJECT

	TT	TBCO	GTEA	EAKIL
(a) Quick intuitive Analysis				
(b) Payback				
(c) Rate of Return on Investment - various versions	YES - Capital employed	Money invested on Project		Acting Chief Accountant not aware of method used by NDC
(d) Internal rate of return				
(e) Net Present value			Projected P & L A/C	
(f) Others				

Apparently, none of the four companies uses discounted cash flows. The Treasurer of GTEA shook his shoulders when asked why GTEA does not use it, and said, "may be we should use it." The Chief Accountant of TBCO said that project appraisal is taken at the level of NDC Headquarters. This was also the response of the Acting Chief Accountant of EAKIL. This accountant was not at all aware of any method that was used to establish the viability of EAKIL's operations. The Chief Accountant of TT gave a number of reasons for not using the method, among them, limitations such as due to:

- (a) Uncertainty
- (b) Rough projections
- (c) Practical difficulties
- (d) External problems such as market conditions
- (e) There is no material difference between using the method and not using it.

The same accountant said his company had cash flow planning.

For its projects TBCO could and did supply the following information:

- (a) Expected profits for each year up to 1975
- (b) Taxes paid to government - in this case none.
- (c) Surplus to be invested. In this case surplus would be used to reduce liabilities - long-term borrowing.

- (d) Foreign exchange - Required) up to
- Obtained (savings) 1975
- Balance

(e) Number of workers	1973	1974	1975
	850	900	950

The company could not supply information regarding contribution to the nation by shadow prices.

TT was also able to supply the above information less comprehensively. Expected profits for one year was 10% of sales. No taxes were to be paid to the government. Surplus would be used to reduce borrowing. The number of workers would increase by 40 people to 180.

GTEA did not supply information to the same questions in as much detail as TBCO. Taxes paid to the government would be 40% of the profits. The surplus would be used to reduce bank overdraft. Foreign exchange required for radial tyres expansion project was about 3.5 million shillings. The number of workers

would increase by about 30. Imputing in duty and sales taxes, the Treasurer was able to say, the government would obtain about 21% of the extra revenue.

EAKIL was able to supply information on projected profit for the next 3 years for both the estate and the factory. The factory's loss this year will not recur next and subsequent years when the factory operations are expected to yield profits. For all three years, the projections on the company estate indicate substantial losses. Other details could not be supplied as the company year plan was still in preparation. It appears the project has a negative contribution to the nation if shadow prices are taken, since production costs per bag are higher than import price per bag, at Dar-es-Salaam. The difference is, however, expected to decline with an increase in volume of production.

5.6.4 Externalities

The expansion project of TBCO affected employment, foreign exchange balances and sisal production. Expansion of bag production is very much affected by the national economy. Higher agricultural production leads to a higher demand of bags and vice versa.

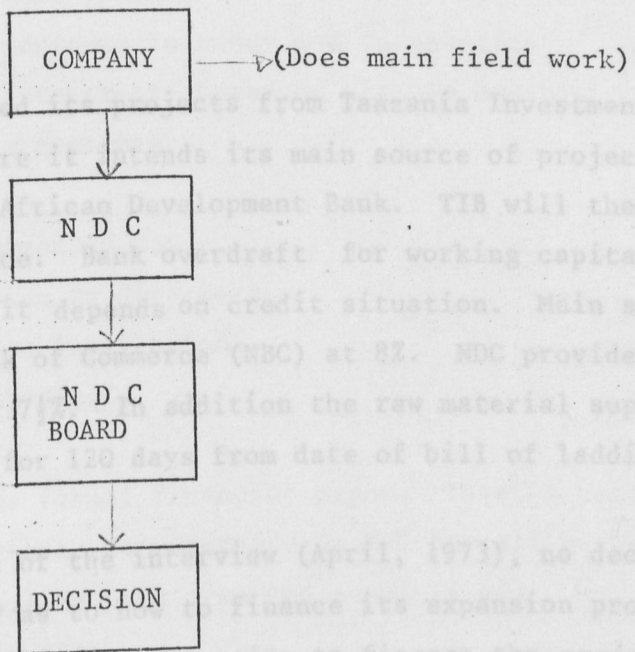
Expansion at TT would affect Tanzania hides and skins, the bulk of which is exported raw. This will have effects on foreign exchange, and subsequently prices paid to farmers. The project may also give rise to small scale industries.

The General Tyre project would provide employment in towns where branches become established. Radial tyres would be a good import substitution product. EAKIL operations affect agriculture.

5.7.0 Financing of the Project

5.6.5. Decision Making

In making decisions as to whether to carry out a project or not, the management of TBCO must consult NDC Head Office, and must get approval of the Bank of Tanzania where foreign exchange is concerned. Whatever recommendation is given by management to NDC, there is a due consideration given. The same applies to TT. In case of projects, the following procedure is applicable:



For projects involving an outlay of 7,000/-, GTEA can decide without consulting NDC. For projects above this sum, the Board of Director's approval is necessary. The management can give recommendations to NDC prior and after the decision has been made.

EAKIL must consult NDC Head Office prior to making decisions on whether to carry out a project or not. Prior to making decisions, the management of EAKIL can make recommendations but after the decision has been taken, management has to implement it.

5.7.0 Financing of the Project

For its project, the TBCO obtained money from East African Development Bank at 8%. Other sources of money are NDC Head Office at 9%. Capital Equipment manufacturers allow installment payments at 7%. There are other sources within the country at 9%. In addition to the above, the company obtains 30 days credit from its suppliers. In choosing among alternative sources of money, the company considers the interest rate, i.e. cost of obtaining money and profitability generated by such funds.

GTEA financed its projects from Tanzania Investment Bank at 8%. In the future it intends its main source of project finance to be East African Development Bank. TIB will then take the second place. Bank overdraft for working capital is limited because it depends on credit situation. Main source is the National Bank of Commerce (NBC) at 8%. NDC provides short term funds at 7½%. In addition the raw material suppliers grant trade credit for 120 days from date of bill of lading.

At the time of the interview (April, 1973), no decision had been made by TT as to how to finance its expansion project. Most likely NDC Head Office was going to finance the project. For working capital the company has arranged for bank overdraft facilities and tradecredits. The company obtains its loans at 7½%.

EAKIL had obtained machines worth 30 million shillings on credit from a foreign machinery supplier, (Adriano Gardella) at 7%. The East African Development Bank had given a loan of 7 million shillings at 9%. The company had applied for a loan of 6 million shillings, but it had not received the loan. The Acting Accountant interviewed did not know the reason why they had not received the loan. The company had also obtained a bank overdraft of 4 million shillings from NBC. It had applied for an increase of the overdraft by 3 million shillings.

In addition to these, the Accountant said that the company receives bridging finance (very temporary finance) from NDC. Trade credit is obtainable for 30 days.

5.8.0 Finance Planning and Control

5.8.1. Plans Prepared, Contents and Use

TBCO prepares the following plans:-

1. Annual cash flow
2. Expenditure Vouchers
3. Sales programme in money and in quantity
4. Various statements based on planned monthly profit statements.

Plans are prepared for

- a) submission to directors
- b) financial institutions
- c) self appraisal.

TT also does formal financial plans. This, according to the Chief Accountant, is mandatory on NDC for all group companies. The complete plan prepared consists of

- production plan
- raw materials
- manpower
- direct expenses
- general administration
- marketing and
- financial charges

5.8.2 Observation by the interviewer indicates that such planning is just starting for the company. It has not been the practice of the past.

EAKIL have formal financial plans. The company prepares

- Budgets for management and NDC
- Cash flows
- Operational performance forms
- Sources and Uses of funds
- Projected Balance Sheet

All these plans are incorporated into the company plan. NDC requires subsidiary companies to prepare a 3 year plan. As I have said earlier, the plan for EAKIL was still in the process of preparation.

GTEA also prepares formal financial plan for NDC. The main plan consists of:

- a) Sales
- b) Production
- c) Financial - cash flows
 - Profit and Loss Account

In addition to the above plans, for NDC, the company prepares very detailed Balance Sheets and Income Statements for each month for General Tyre International (USA). Such reports include supporting schedules for every item on the Balance Sheet and Income Statement. It includes comparisons with last month and this month last year. It incorporates many accounting ratios including the Break-even Analysis Charts. A copy of these detailed Financial Statements is also submitted to NDC. This, however, is not a requirement. Information processing for the supply of such information is a major job within GTEA.

5.8.2 Who does the Planning?

For all the four companies, top management is involved in planning. Both TT and TBCO have Budget Committees which involve themselves with the exercise of planning. The Budget Committee of TBCO comprises of people from financial, personnel and production departments. From the Budget Committee, the plan is sent to NDC Board for review.

The Financial Department of TT is the Chief Planner.

But this is done in consultation with other departments. This also seems to be the pattern for the EAKIL. Here the Chief Accountant, in consultation with heads of departments, does the planning. The Accountant commented that in a way, planning is dictated from NDC Headquarters since the format is the same. Both EAKIL and TT have their plans, after preparation, sent to NDC Head Office for approval and then brought back to the company. For TT, at this stage the plan is discussed by the Workers' Committee.

(See overleaf for 5.8.3.)

Sources and Types of Planning Information

TABLE 6

SOURCES AND TYPE OF PLANNING INFORMATION

Please Note: Companies were requested to rank in order of importance

	Y	T	TEGO
1. Sales forecast			1
2. Selling and Administrative expenses			7
3. Direct Labour Costs			4
4. Materials Costs			2
5. Purchasing schedules			3
6. Overhead and maintenance costs			6
7. Capital Equipment Purchase			5
8. Market and Other Researches			-
9. External Information			-
10. Others (Please explain)			-

5.8.3.

5.8.3.

Sources and Types of Planning Information

T A B L E 6

SOURCES AND TYPE OF PLANNING INFORMATION

Please Note: Companies were requested to rank in order of importance

	T T	TBCO	GTEA did not rank	EAKIL by Marketing Manager	EAKIL by Chief Accountant
1. Sales forecast		1	1	1	6
2. Selling and Administrative expenses	Information	7	1	-	4
3. Direct Labour Costs	used in	4	1	4	2
4. Materials Costs	accord-	2	1	2	1
5. Purchasing schedules	ance	3	1	3	5
6. Overhead and maintenance costs	with	6	1	-	3
7. Capital Equipment Purchase	planning	5	-	-	-
8. Market and Other Researches	groupings	-	-	-	7
9. External Information	given	-	-	-	-
10. Others (Please explain)	earlier	-	-	-	-

NOTE:

In the above ranking, there is a difference between the ranking by the two executives of the EAKIL. There may be two explanations. One might be because planning is still in the process of being formulated, and therefore there is no established pattern. Another explanation may be that since the Marketing Manager was not the Chief Co-ordinator of planning, he was not aware of all the information inputs taken into account.

5.8.4. Other Types of Planning Related to Financial Planning

All the four companies have forecasted financial statements. These statements are used as a base for comparing plans with actual performance. Management in all the companies saw planning as an integrative process. Financial planning is done at last and incorporates all other plans.

5.8.5. Other Means of Planning and Control Apart from Forecasted Financial Statements

The TBCO has a system of daily and monthly production reports. It also employs labour employment reports, sales reports and monthly costing statements of production at different stages.

EAKIL has a bonus system. The capacity of machines per operator is known. For instance, in bag production, the capacity per operator is 1,000 bags. Production in excess of this is awarded a bonus, which is related to the salary of the operator. The workers are meeting the targets, and the bonus system is working.

Both TT and GTEA seem to confine their control on the financial statements.

5.8.6. Other Information Needed to Improve Planning
and Control of Finances

None of the four companies felt it lacked any. General Tyres was concerned with accuracy and speed, and to this effect it had bought NCR 400 to facilitate data processing.

5.9.0 Funds Flow Statement

Funds have been defined as working capital. Only TBCO was willing to make such information available for me. In the case of EAKIL, such statements were in the course of preparation. As such comparison and trends is not possible.

5.9.1 Accounting Ratios Based on Vertical and Horizontal
Analysis

General Tyres prepares many of these ratios. But management was only willing to give me a trend. In short, their ratios have been improving.

TBCO was prepared to allow me work out ratios from their accounts. Both Gross and Net Margins of sales, and Rates of Return on Investment have improved for the last three years.

Data for vertical and horizontal analysis was not made available for me by TT. This was also the case with EAKIL.

5.9.2. Conclusion

I have attempted to present as objectively as possible a summary of my discussions with some top executives and the questionnaire filled from four NDC subsidiary companies. No personal bias or opinion has been imputed so far. In our next chapter, I will try to discuss some of the information in this chapter in the light of hypothesis stated earlier. I shall attempt to look into implications of the information herein to money management in NDC firms.

6. COMMENTS AND OBSERVATIONS ON RESULTS

6.0.0 Introduction

So far we have looked at a number of factors regarding money management in NDC. We have seen the place of money in national policies. We have looked at NDC and tried to identify its goals very broadly. Then we have presented the situation as was found in four of the companies of NDC that were interviewed. Now we want to look into some of these results in relation to the few hypotheses stated earlier and our notion of money management. The question of hard and intelligent work has got to be borne in mind throughout our analysis. Just as the farmer or peasant is expected to combine hard work with good selection of seeds, bigger hoes, the right planting season, the most profitable crop, etc, all based on proper understanding of circumstances, and application of knowledge thereof, so should management of NDC be expected to do directly with respect to resources acquired by this money. We realize the type of work and intelligence required may be different for the two situations. But the notion is the same.

6.1.0 Goal Definition

Hypothesis I:

NDC firms state their objectives in terms of desirable, achievable and measurable results.

The reasoning behind this hypothesis is that the way in which a business defines its goals and states its objectives is vital to its survival.

The results indicate all the businesses define their goals and state their objectives in terms of the product they are producing. But to me this may be undesirable. The products NDC is producing are means to an objective, not a means by themselves. If there is a need they are satisfying presently, the definition may suffice in the short run, but in the long run, it

will fall short. Even in the short run, there are defects in defining company objectives and business in terms of the product it is making. If the product demand fails, the business will also fail. To some extent one could justifiably argue that the objective of public supported corporations should be to produce the needed goods and services regardless of profit. But such a view has problems of its own. What are needed goods and services? There is often a time shift in consumption. Profits are a signal that the right goods and services are being produced. TT had defined its business as "to utilize hides and skins for local use to meet the demand for local market." In the first two years of operation, the company faced a lot of problems in that the local demand for leather fell far short of expectations. The shoe industry envisaged was not built. When completed, the shoe industry absorbed much less finished products of TT than expected earlier. May be this is the problem facing many businesses. But such a situation forced management to broaden its goals and state its objectives differently. The widening of horizon is to me more realistic. One should note that this is not being vague. Several objectives have been stated in clear precise words to include meeting local demand, exporting in East Africa, exporting outside East Africa and so forth. In making a plan, all these factors can be incorporated or weighed against each other.

But to some extent business definition is not yet the best. Finished and semi-finished products of leather may be out of demand, perhaps in the near future. Will the TT close down? Is TT processing hides and skins for footwear, handbags, garments or comfort and smartness? Think about this. Presently, garments made out of goat and sheep skins are fashionable in East Africa. The TT makes garments of such nature. But TT has no dealings with NATEX, the sole distributor of textiles in Tanzania. NATEX exports textiles as well. It specializes in clothes of all types and deals with all countries of the world. As a result of there being no dealings between NATEX and TT, in Moshi, one cannot buy goat and sheep skins. This is also

the case in Arusha TT makes the garments to order. The company waits for enough individual orders to accumulate to an economic size for a particular type. This is a long, slow process very discouraging to individual buyers. NATEX could make national and international estimates of demand and buy in bulk, thus making it possible for smooth continuous production schedule. Talking to a well known tailor in Moshi, as to why he did not engage himself in leather garments, he said, the garments were not available. When I pointed to him the source he denied there was a possibility of his getting the garments from TT. Even if he got them, prices, he suggested would be too high. He complained that "many of our companies in Tanzania are producing for export." He pointed to a local businessman who was dealing in such garments, but was facing great problems of obtaining the material. This same local tailor had imported trevira-terylene fibre, which was more expensive per unit area, than the leather garments. What a pity, to TT, market was a limitation. To the tailor, production was meagre or non existence. Of course the two parties were talking of two different products, one finished leather products, and another clothing for comfort and smart appearance! Yet the tannery is at Moshi. Worse still, both NATEX and TT are subsidiaries of NDC. Why is there such a situation? I suppose it is mostly because TT has defined its business in terms of products of hides and skins. "Our business is tanning" so the management has got to spend more time looking for leather dealers to buy the garments. There is hard work here. There is clearly room for improvement as the same work could better be done by NATEX. Probably NATEX has defined its business narrowly as well. So it may fail to see that hides and skins raw or processed could provide some value satisfactions as cotton, silk or wollen apparels.

As seen from the objectives of EAKIL, i.e. making hessian bags as substitute for jute bags for both domestic and export markets, one would expect no marketing problems given that the demand for bags in that category is 12 million, whereas

production in the country when that of EAKIL was included was only 8 million. In May when I visited the factory, the company had the biggest problem a manager of a newly operating factory would face. They had achieved their goal in terms of production. There were heaps of good quality hesian bags, but there was no market for them. The company had severe problems of working capital. One of the reasons for such a problem might have been the poor definition of company goals. I will mention another possible cause later, and this is not very much unrelated to goal definition. Had they defined their goals in terms of maximizing shilling returns of their investment, a lot more effort could have been made to ensure sales. Selling was impossible because State Trading Corporation had imported enough supply to last the nation twelve months. Probably STC was not aware of the production plan of the new company. Luckily, in late September, when I revisited the company, the problem had been solved, in my opinion, very temporarily. The company had managed to channel its produce through NATEX. It was now the decision of NDC to distribute the bags through NATEX.

To me the above decision has a number of defects, most of them arising from the very issue we are discussing that is poor business definition. As a long term strategy, the decision is poor, because NATEX is not involved in the packaging business. In Tanzania, one never finds in textile shops, wholesale or retail, packaging material. The bags and hesian clothes are used almost entirely in agriculture industry, first, the hesian cloth for spreading of crops for sun drying, and the bags for packaging. The best channel of distribution are the Marketing Co-operative Societies, found in every Tanzania village, and organized both at regional and national level. So in the long run, I anticipate a problem in distribution of bags accompanied by cries from farmers. Secondly, NATEX is not yet very efficient. There are a lot of complaints in distribution of textiles. Addition of unrelated product line may add the burden of providing an efficient service to this young

corporation. Thirdly, if the case is true that STC had ordered enough supply to last the nation twelve months, I suppose, for the next twelve months, NATEX will only be storing the bags, may be at its godowns spread throughout the country. Bags are bulky products, demanding large storage space. But, they carry low money value so that it is not worth to keep stock of such for a long time. The fact that NATEX is going to store them for twelve months, might lead to decisions by NATEX to expand its godowns, only to find out later that the expanded space is not needed, when bags begin to move fast again. As far as NDC as a whole is concerned, the problem that existed in EAKIL in June, still remains. There is accumulation of unbought products. There is capital tied up in stocks. There is sub-optimisation in management of money. The only change is that the burden has shifted from one subsidiary company, EAKIL, to another, the NATEX. This is dangerous, and bound to lead to other forms of sub-optimisation and mismanagement of money. Since NATEX as a whole is making substantial profits, it will not be easy for NATEX or NDC as a whole to see the amount of capital tied up in stocks or the losses resulting from one of its product lines, i.e. the bags.

TBCO has similarly defined their goals in terms of sisal bags. These days a lot more crops are being packaged in paper or plastic bags. Apparently, such other types of bags seem to be cheaper. What will happen if crop importers demand that their consignments be packed in paper bags. Both TBCO and EAKIL will go out of business. But if both had defined their goals in terms of "packing the produce of our nation," then they could have hundreds of alternatives available to them. In case of failure of one alternative there would not be much difficulty in switching over.

GTEA was no exception to this narrow goal definition defect. Its business was tyre manufacturing. But the company stated categorically that it would diversify as opportunities arose. Probably right now, it is difficult to see the

possibility of tyres being replaced by anything else. It is important to note that the company thinks in terms of entire tyre market, manufacturing about 110 types, importing certain odd types and exporting where possible. Its multinational level puts it on a slightly different plane.

The dangers of poor business goal definition has struck NDC itself in an article appearing in Jenga 13 of 1973.²³ "The new NDC three year planning horizon". In this article a number of factors pertinent to sound business planning are discussed. Then the article point out "A major question which would be borne in mind by all concerned in drawing up the plans is 'what are we in business for? Or how can we make the maximum contribution to the industrial revolution in Tanzania?"

"For while it is true to say that companies are there 'to make profits', or to 'serve Tanzania' the above questions deserve much more thought since the different possible answers may gear a company towards widely differing activities, often making all the difference between long-term failure or success. For instance, the 1973 plans must take the following questions into due consideration:

Is Tanganyika Meerscham Corporation in business to make pipes, or to mine and secondarily to make pipes, or in the business of supplying smokers accessories? Is Metal Box in business to make containers and cans or is it in the secondary industrial sector of processing and shaping tin plates for other industries or commerce? Is Portland Cement supplying cement or is it endeavouring to satisfy the needs of building and civil engineering.?"

At this point, let me point out for the four companies I visited, 3 had their 1973 company plan completed. One was in the process of making the plan. I personally saw and read two of the plans. None of the four companies seemed to have defined

23 JENGA 13, 1973, NDC, page 15

or even attempted to define its business in a similar fashion as being suggested by the holding company journal.

Perhaps I may state a surprise here. None of the companies stated its objectives in terms of money. None was able to tell me all at once that our objective is to earn x shillings over and above our current investment. True, this was vaguely stated in sub-objectives. But this seems not to have been at the forefront of the executives interviewed. This may be the case for all business enterprises. But whether this be the case or not, I see no reason why NDC firms should not do so, if money is scarce and if the result they are expected to achieve is measured in terms of money. None of the firms is evaluated by top NDC management in terms of the bags, square feet of leather or tyres produced. In sections 2.1.0 through 2.2.0 we came out by logical deductions from available information that apart from profits, there could not be any other logical base upon which NDC could evaluate the performance of the operations of its subsidiary companies. Monetary units appear to be the best measure of profits. We can safely say the firms are evaluated in terms of the amount of money they make. This then should be at their forefront. Objectives should foremost be stated in terms of amount of money expected out of operations, both in the current and future periods or for an extended unit period of time.

We may therefore conclude that NDC subsidiary firms do not state their objectives in terms of desirable, achievable and measurable results.

Despite the above conclusion, I may add that in all the firms visited, a good attempt has been made. We should realize that although NDC is expected to operate at a profit on sound commercial manner, it must do so within the national aspirations. Processing of nation's raw materials employing modern industrial techniques and industries may have great significance

to a developing nation seeking economic freedom. These things may influence management of any firm in Tanzania in the exercise of defining the company's goals. This may be the short term case. In the long-run, business will have to be defined in terms of value satisfaction.

Now let us comment on the basis upon which the companies are founded.

6.2.0 Goal Specification and Company Viability

I have shown that all available evidence, including the Corporation Act support the view that NDC is a profit making organization. But in pursuing this policy, management of both subsidiary companies and the company as a whole have got to take into account all other factors as pertaining to achievement of any other goal the government may be trying to achieve. To what extent is management of a subsidiary firm aware of these factors? Are they put into consideration even in preliminary project examination? The questionnaire sought answers to such questions. Available information suggests there is a definite criteria which should act as a guideline to NDC selection of projects.

The NDC journal, Jenga 8 of 1971²⁴ had an article "How NDC picks its projects." This article was based on a paper by I.C. Packer (1970) - NDC Investment Policy and Its Relations to National Industrial Planning Objectives.²⁵

The article specifically addressed itself to the question "What is the process by which new project idea becomes an operating company and what are the hurdles a project must pass before the NDC board gives it the go ahead?"

24 JENGA 8, 1971

25 Economic Research Paper (ERB) 10/12/70 - University of Dar es Salaam.

The following factors were identified.

1. Commercial profitability
2. Effect of project on government revenues
3. Impact of investible surplus
4. Effect on foreign exchange and balance of payments
5. Overall national benefit (measured in shadow prices)
6. Capital employed per worker
7. Potential linkage effect.

All the above factors were each explained in detail.

1. Since NDC is by legislation required to operate at a sound commercial principle, unless there is a strong social or economic benefit accruing to the nation, which counter balances commercial unviability, a project will not normally be developed, since, in itself, it will mean a drainage of scarce resources.

2. and 3 represent an attempt to gain clearer picture of ability of the project to generate funds that can be re-invested. Profits generated do not by themselves demonstrate the ability of a project to meet this criterion. So taxes, duties, wages to workers, net duty and sales tax, payment to national provident fund and other factors have got to be taken into consideration.

4. Foreign exchange considerations are given a very high placing, since industrial expansion would ultimately depend on ability to pay imported capital equipment. There is also a realization that the problem of foreign exchange will have to be settled by expansion of exports, as import substitution possibilities decline with every new import substituting industry.

5. Measuring national benefits in shadow prices attempt to look at opportunity cost of national resources. Because of this, artificial market considerations brought about by peculiar

situation or government control are accounted for. Sales for instance are valued at import prices at Dar-es-Salaam Harbour. Labour costs are also adjusted.

6. Capital employed per worker relates to technology employed, while

7. Potential linkage effect attempts to look into effects the project may have on the economy as a whole in a particular region. Will it, for instance, stimulate other industries?

The article discusses problems involved in using the above criteria. Time consideration, manpower, data, and problems connected with implementation are also discussed. Then the article concludes "Yet inspite of the importance of thorough evaluation, it is the beginning of evaluation process, the generation of promising new project ideas, that is the source of steady stream of new industries coming into production."

Indeed policy papers indicate that all the above factors have to be taken into consideration. Tanzania Second Five-Year Plan for Economic and Social Development for 1969 to 1974²⁶ discusses project evaluation at length. I quote sections 78-82 of the Chapter on Industry.

"At the outset of the first plan the role of industrial planning was limited. A substantial part of the industrial sector was private, while even the public sector was involved in joint projects; where implementation was dependent on the initiative of private interests, in most cases, foreign. Now Tanzania is faced with a situation similar to that from which

26 Tanzania 5 Year Plan Vol. I, General Analysis; Chapter 4

a number of socialist countries have successfully industrialized through programmes of planned expansion.

"Placing responsibility in the public sector was a necessary first step towards the creation of a successful industrial development. By itself, however, public control will not be sufficient to ensure satisfactory industrial development Nor is short term profitability an adequate criteria for the choice of projects short term profits must be weighed against the achievement of long term objectives where these can be clearly specified."

In order to develop national and effective decision making in relation to industrial project selection, systematic criteria will be laid down during the second plan which will be applicable to all parastatal projects and be used for guiding public policy outside the parastatal sector.

For this purpose, the impact of the project on overall development will be evaluated under four headings:-

1. Foreign exchange effect
2. Real net contribution to domestic products
3. Budgetary impact
4. Social impact "

The plan then goes to expound the meaning of each of the four items in a manner consistent to the article quoted above. Perhaps at this point, one might question the emphasis we have put on profits so far. I personally do not think that these views destroy the case for profits as being the main goal of NDC. The conditions set the constraints that have got to be considered. They define profits more narrowly and within the national context to avoid vague and wild interpretations that might lead to navigation of business to horizons beyond the national goals.

There is yet another evidence that the factors on "How NDC picks up its projects" are extremely relevant. The Tanzania Investment Bank (TIB), the main financier for medium and long term projects take into account all the factors mentioned in evaluating projects before advancing loans.

Now let us look at the extent to which management of subsidiary NDC companies is aware of these factors.

All the four company management have rated strongly the foreign exchange criterion. Effects on foreign exchange and balance of payments was ranked number one by GTEA. Overall national benefit was ranked by GTEA as number two. Commercial profitability was ranked number three for GTEA, all other factors were not considered at all. Conferring of regional benefits was only slightly considered in that when the company decided to distribute tyres by itself, people in towns where branches were established got employed. Of course this assumes that by depriving distribution off the former distributor (STC) no unemployment was caused.

Overall, none of the companies accepted that the decision to establish the firm was a sheer guesswork. EAKIL, TBCO and GTEA, all rejected it was a mere political decision. TT accepted that its company was partially a result of political decisions. All the four accepted that their firms were established on the basis of market analysis and projections. Financial analysis and projections influenced the decision for TBCO, GTEA and EAKIL, while existing raw materials influenced the decision of TT and TBCO.

Both TBCO and GTEA seem not to have looked at the effect of the project on government revenues. Capital employed per worker and potential linkage effect seem to have been ignored by all the four subsidiary companies of NDC. Potential linkage effect was completely ignored by TBCO and GTEA,

considered only slightly by TT and wholly taken into consideration by EAKIL. TT, TBCO and EAKIL do not seem to have considered overall national benefit measured in shadow prices.

Of all the factors and of the four companies TT and EAKIL seem to have considered a greater number.

At this juncture, we may ask, why wasn't the management of subsidiary companies aware of all the factors relevant to founding of their companies or selection of projects if, the Government, the holding company and the banking institution required that these factors be taken into consideration? Would it have made any difference in management of money?

As to why they did not there may be a number of possible explanations. One may be inability to grasp so many factors in addition to day to day operations. The limitation might be mainly based on educational background of the management. Comprehension of such factors would need a manager to be equipped not only in accounting knowledge or management philosophy, but economics as well. I had to explain to some the meaning of these factors as we discussed the questionnaire. Another possible explanation might be a concentration upon short term profitability motive. In this case concepts like shadow pricing may be completely meaningless to the manager. Third possible explanation could be that the holding company, NDC, does not practically take into account all these factors. If it does, I suggest, it does not have enough competent personnel. At this juncture, I may briefly describe the EAKIL.

During the months of May and June, when I did most of the interviews, EAKIL was in a bad financial situation. There was an acute shortage of working capital. There was also lack of funds for implementation of long term capital investment projects. As there was no Chief Accountant at the time of the interview and as I failed to secure the filled questionnaire,

I sought information about the company elsewhere. I managed to get a very useful bit of information from Tanzania Investment Bank. NDC had applied on behalf of her subsidiary company, EAKIL, for a loan to enable it implement the plans. The bank had done a detailed analysis of the project, taking into account all the factors mentioned above. They did analyse many more factors, such as manpower and organisational structure of the Agro-industrial complex. They found the project unviable unless substantial re-organisation of the industry was made. One of the major changes they recommended was a complete separation of the estate from the factory. In this case, the EAKIL bag factory itself viable would be free to make its own decisions very independent from those of the estate. It could import or buy internally Kenaf fibre depending on which was cheaper. Similarly the estate would make its own decisions as to what to produce. Since Kenaf is an internationally traded commodity, there was no need to tie the estate to the factory. According to their analysis, growing of Kenaf could turn out to be contra to the national objective of producing more food. This was serious, since there were other crops that had a higher yield per acre and per shilling invested. The estate as a separate entity could determine its own product mix in accordance with market conditions and national objectives. Indeed the bank analysis considered several alternative crops as well as dairy cattle farming. To the bank, there was no point of managing two very different enterprises, 18 kilometers apart, one of which was going to subsidize the other for an indeterminable period.

At this point one would ask, how could a bank find a project unviable when NDC had it half implemented? The East African Development Bank, EADB, had financed the operation so far. The analysis of Tanzania Investment Bank is detailed and comprehensive. The only explanation we may have is that NDC herself including EADB had not done proper project analysis for EAKIL. Indeed EADB had not taken shadow pricing of the

project, especially in so far as prices of bags and Kenaf fibre were c.i.f. Dar-es-Salaam. The bank had not taken into account a number of other factors including government loss of 30% duty on imported bags. In late September, I revisited the firm, and this time I had my questionnaire filled. TIB loan had not been obtained as yet. More pitiful is the fact that the Acting Accountant did not up to this moment understand the reason why EAKIL had not been granted the loan as requested. This same accountant said project analysis was done by NDC. As such, I do not understand what sort of analysis had been done. If NDC had not done proper analysis here, it is unlikely that it has done adequate analysis for the other firms. Furthermore, it is unlikely that NDC Head Office has consciously impressed upon management of its subsidiary on 'necessity and how of project evaluation.' More about project evaluation will be said later.

Now a word about whether it would matter if management had taken into account the above factors. I think it would. Knowing all factors pertinent to company operation may improve the decision making process. We are still working under the assumption that money is scarce in Tanzania. An understanding of opportunity costs of the resources at the disposal of management, may make the latter more conscious of need for efficiency. This is particularly important in socialist economy where the market conditions are not allowed to operate freely, such that bags can still be produced even when they cost 1.5 times the import price. Failure to grasp the factors may sicken management with myopia, resulting in inability to relate their individual companies to the rest of the economy. An Agro-industrial complex symbolizing modernization, application of new technology and economies of scale arising from vertical integration, may be very appealing to a young country like Tanzania. But when analysed in the light of its contribution to profits of corporation and national benefits, it is reduced to a point below that of a statute of a Head of State that has been

overthrown by the military. One might point out the difficulty of understanding the factors. I do not believe the problem is enormously large if proper training to management concerned is done. After all, if the firms have to wait for the Tanzania Investment Bank to come and disapprove their projects, it may mean a delay in implementation and a loss of cash earnings due to lost sales.

6.3.0 Hard and Intelligent Work in Money Management

Now we can turn to my second hypothesis.

Hypothesis 2:

NDC firms management exercise hard and intelligent work in managing money.

The meaning of hard and intelligent work has been explained earlier. We said that this hypothesis has various implications. We shall look into each of the implications in turn.

6.3.1 Implication I - Efficient Project Selection

In selecting its projects, NDC uses the most efficient method, that is discounted cash flows (DCF) method.

Why should we rate discounted cash flow method as efficient? First, theoretically it is reckoned to be so, because it takes into account the time value of money. NDC firms pay interest periodically for the loans it obtains. Therefore, time value of money should be taken into account. DCF fully allows for timing of outlays and receipts giving future ones less weight than current ones, while other methods, like projected net profits, treat all receipts and expenditure the same regardless of when they accrue or are incurred. Secondly, DCF method forces management to look at a project over an extended period of time, the life span of a project. The method enables management to compare different investment projects both internal and external to a particular company. The method also destroys fallacious conceptions held by some

management such as the ideas that depreciation creates funds for replacement of equipment. Fourthly, NDC Manual for project evaluation recommend discounted cash flow method as being the best. So the subsidiary company should be expected to use it. Lastly, Tanzania Investment Bank, the main financier, uses DCF method in evaluating projects. In his article, 'credit evaluation by TIB,'²⁷ G.F. Mbowe, the Managing Director of the Bank discussed a number of things looked into. Then he points out: "The commercial profitability test is basically in terms of project financial performance. For the purposes of obtaining a perspective financial picture, the bank normally prefers to look at a 10 year period projected cash flow. The figures are then discounted at 10% to determine the net present value which is expected (for any sound project) to be positive. Where an internal rate of return criterion is calculated we expect the internal rate of return to be higher than the weighted average cost of capital to the public sector. As a rule of thumb, we always use 10% as a minimum cost of capital in all discounted cash flow analysis".

None of the firms interviewed use DCF method for evaluation of its projects. I do not consider the reasons for not using the method as being sufficient. I am aware that more crude methods of investment decision analysis, methods which are, in fact, far inferior to DCF method, and therefore leading to less than optimal decisions "continue to be used widely even in Tanzania".²⁸ Having pointed out the defects of these other methods compared to DCF method, John Loxley observed the above fact with a heavy heart of protest. I also protest. It is logically sound, and overall profitable to choose a method that has been demonstrated to be superior to others, even if the whole world went the opposite way. After all, most of the firms seem to have almost enough data to

27 "Rasilimali" - Tanzania Investment Outlook, January 1973
(TIB), Dar-es-Salaam.

28 "Rasilimali" - Tanzania Investment Outlook. Jan 1973
(TIB) Dar-es-Salaam. J. Loxley - Principles of Financial
Management in Capitalist and Socialist Economies.

enable them to carry out discounted cash flow appraisals. Some have cash flow statements for at least three years. The bank rate is known. But somehow there seems to be a cloud of suspect, mistrust and fear of this modern method of project appraisal even when the holding company has recommended it. Probably, the power of this method has not been properly demonstrated to the chief accountants of these subsidiary companies. Many of them might imagine there are very hard mathematics involved. We can conclude with respect to project selection, hard and intelligent work principle is not being applied.

6.3.2 Awareness of Sources of Money

Implication 2 of Hypothesis 2:

NDC subsidiary company management is fully aware of alternative sources of money and cost of securing it.

To a large extent this hypothesis holds true. Mostly financing is done by the Tanzania Investment Bank. The East African Development Bank does finance projects as well. Apparently, the lending rate for the two sources of money is 8%. GTEA, TBCO and EAKIL already have received loans from EADB. For short term purposes the National Bank of Commerce provides bank overdrafts. Also NDC does provide medium term loans to a firm through an external supplier. For instance, in case of TT, SIDA had advanced a loan to NDC. In this case the company had to pay the debt to NDC Headquarters. NDC Headquarters would then arrange its own payments for SIDA loan irrespective of the operations of the subsidiary company for which a loan has been advanced. The short term loans seem to have been available at 9%. But recently, the National Bank of Commerce, NBC, has resolved that it will lend to NDC at 8%.

The use of traders' credit vary from firm to firm. TBCO obtains credit of 30 days from its suppliers. TT has just managed to negotiate for a 90 days credit from the external suppliers. For the hides and skins which form the bulk of

TT raw materials, the company has got to pay cash. This is partially due to the nature of suppliers who are individual dealers. GTEA has credit arrangement of 120 days. EAKIL has credit facilities for 30 days. The bulk of financing for factory, however, was obtained from foreign suppliers of machinery who constructed and machined the factory at a cost of 30 million shillings as a loan to the company at 7%. Assuming that the invoicing of machines and job costing of construction and installation was correct, EAKIL must have gained since a bank loan from either EADB or TIB for such a job would have been 8%. Why are there differences regarding the terms at which companies obtain trade credit? One reason may be that the bargaining power of the three firms differ may be as to:-

- (a) the ability of management to negotiate
- (b) the quantity being bought - here GTEA has an advantage due to size
- (c) the nature of suppliers, country and product
- (d) the type of business in which a firm is engaged in.

Both TT and TBCO face greater problems in that the suppliers of the bulk of their raw materials demand cash immediately. This is particularly so for TT whose suppliers of hides and skins are individual farmers.

One may wonder whether these firms are in a position to bargain for cash discounts by paying immediately and foregoing trade credit. This would be advantageous to the firms especially if the firms had idle cash lying around, or at least if the cash discount obtained was greater than the benefits obtained by receiving credit. Supposing GTEA bought goods worth Sh. 10,000, all payable within 120 days after receiving goods, or payable cash at 10% discount immediately the goods are received. Here GTEA would compare the difference between Sh. 9,000 payable today and 10,000 payable 120 days later. A number of factors will influence the comparison. One very vital one is what use can be made out of Sh. 10,000 for 120 days and for what benefits. These benefits can be compared to

1,000/- foregone discount. There are many ways through which this comparison can be done, one very effective one being to discount the benefits at a going on rate of interest to the present value. Such analysis need shrewd management. It makes a difference between firms which do so and those which do not. We have already pointed out the possibility of management failing to do such analyses due to inadequate training. There are, however, other factors which may cloud and discourage management from carrying out such analysis. One might be shortage of working capital either due to poor planning or lack of facilities. Another, very much linked to the first, is the nature of business a firm is in. A company like TT buys most of its raw materials for cash. We have said this, for this, the company has no option. Processing takes a long time. The bulk of the produce of the company is exported. It takes a long time for these imports to result in cash flows at the exposal of the company as a liquid asset. Taking into account payment for material in cash, the long time of processing, and the long time exports (sales) take to change into cash, the money cycle for such a firm is fairly long. Such firms may frequently face liquidity problems. TT seems to have been in such a situation. I went with the purchasing man to buy salt in Tanga. He was told by the Manager not to pay cash if the supplier did not insist on it very hard. In fact, he only paid one cheque and returned the other cheque to be paid in the future. While at the office of the General Manager, the Chief Accountant came with an invoice which he and the Manager had to decide whether to pay immediately or not. Here the consideration was the liquidity and the urgency by the supplier that cash for goods should be paid immediately. Most likely then, such a firm will be tempted to take credit terms from as many suppliers as possible, even if such decisions happen to be sub-optimal to money management exercise.

29 NDC Ann The companies interviewed complained that overdraft facilities were limited. Each company had an upper limit of

the bank overdraft facility available for it. The working capital situation is very much limited by the credit situation in the country. This is controlled by the Bank of Tanzania. But one would wonder why the upper limit should not be enough. I gather there might have been an underestimation of working capital requirements during the initial planning. Underestimation is mainly with respect to the ability with which firms are capable of converting the sales into cash. I have mentioned for instance the problem TT was facing. One possible solution of such problems of export oriented firms would be for NBC to finance export sales against security of NDC. Unless this or a similar move is taken, shortage of working capital could be a big hindrance to the progress of export oriented firms utilizing local raw materials.

There is yet another puzzle. NDC is a large holding company with subsidiaries all over the country. At times I would imagine that some of the subsidiary companies which make profit could have idle surplus cash for one or two months. This money could be lent to subsidiary companies needing it at say 4%, a much lower rate compared to that of the bank, but high enough to make corporate money more productive. I sought to find out why this is not being done. This has been rejected by the monetary authorities. The 1971 NDC Annual Report²⁹ had this to say:

"In so far as the liquidity situation of NDC is concerned, this was a cause of concern at the end of 1971. On the basis of government authorization and with funds provided by government in previous years, NDC had launched projects and made commitments, the implementations of which necessarily extended through 1971, and for some into 1972 also. The change of emphasis in government

29 NDC Annual Report 1971

investment plans for 1971 made it impossible to provide NDC in that year with such government funds as would have been necessary to normally continue the already launched programmes. It was, however, impossible to stop these and NDC's commitments had to be honoured so that NDC fell back on an inter-group financing mechanism to provide the immediately necessary funds. The corporation was operating an internal group companies lending scheme, whereby short term cash surpluses available in certain group enterprises were lent on short term basis to other group companies, thus generally making the Corporation finances sufficiently liquid.

However, the monetary authorities considered this practice to be unacceptable from the point of view of global credit management of national economy, and it had to be brought to an end. This coincided with a general curtailment of banking credit with the result that capital expenditure disbursements already committed have taken up the total short term financing capacity of the corporation itself. This resulted in cash deficits at the end of 1971 of Sh. 26,500,000.

In order to relieve this situation and to bring the corporation on sound footing, a medium term bridging finance arrangement has been sought from international banking sources. 15 million shillings has already been obtained while some 22 million shillings is assured and will be obtained subject only to pending authorization of our financial authorities. The reimbursement of these amounts is fully assured by the corporation's cash flow over the next 5 years!"

The above quotation does give us some illumination on awareness among subsidiary firms of NDC of alternative sources of finance. Here the company as a whole had been forced to look for external sources of short term finance by deliberate action of monetary authorities which made internal sources difficult to tap. But there are a number of questions at hand. First, were these sources cheaper than internal sources? I do not know the interest rate they bear. But I doubt if they could have been cheaper than some possible idle cash lying with one of the subsidiary companies. Looking at this issue from the corporation's viewpoint, it is a serious one. But the set up of NDC is such that ideally, things should be looked at from the national point of view. If we accept this to be the case, then a possible explanation of the action by monetary authorities in preventing NDC intercompany credit may be found in Loxley's Paper.³⁰ Let me quote the relevant section.

".... But the extensive use of trade credits by the public sector may well allow individual subsidiaries to develop an adverse current ratio, particularly if creditors feel that being a public sector company, increasing trade debts will ultimately be met. In this way commercial bank control over public sector activities could be reduced and inefficient firms could escape notice for long periods of time. This avoidance may be institutionalized if the holding company deliberately encourages intercompany lending and borrowing, cutting out intermediation of the bank. While this may appear attractive in that interest rates can be fixed so that all three parties gain at the bank's expense and the borrowing company obtains credit without the vigorous scrutiny that the bank carries out, the net effect may well be that inefficiency is encouraged and that production, sales or financing problems are allowed to get worse."

30 John Loxley. The Domestic Finance of Development Projects in Tanzania. ERB 71.8, Dar-es-Salaam.

One would need to inquire to what extent did the NDC arrangement work towards solving their financial problems? I do not have a precise answer for this. For one thing I know up to now, it has not been fully satisfactory, otherwise the companies interviewed would not have mentioned the problem of working capital.

6.3.3 Planning and Control of Finance

Implication 3 of Hypothesis 2:

NDC subsidiary firms do most thorough planning and control of finance. They have detailed cash flow statements.

Regarding planning, the company subsidiary firms have moved a long way. Formally they used to plan on the basis of twelve months, but with effect from this year, they are planning on three years basis. A few quotations from an article in Jenga No. 13 - "The NDC three Year Planning Horizon"³¹ may highlight the ideal situation.

"The new three year planning system beginning in 1973 is intended to enable NDC management to have much clearer view of the corporation's various developments activities over the plan period and to be able to plan accordingly the execution of these activities. It will give the government, too, a better perspective with regards to the allocation of development finances to NDC and in drawing any other plans which need to take NDC into consideration.

.... for the whole of NDC group, the new planning process is to become the focal point of attention and the key in the group's decision making mechanism. The plan of each NDC company would thus be the basic working document for management's daily action and regular reporting

31 Jenga No. 13, 1973. Dar-es-Salaam

system"

Then the article discusses important factors in planning most of which have been discussed earlier on in goal specification section. Consolidation, growth, localisation and exports were put as key considerations. The meaning of planning is further elaborated.

".... It will mean a conscious and deliberate effort to improve company's performance and mould its future towards reaching its aims. The plans will be ambitious, clear, short and factual with precise indications of objectives to be attained, ways to reach them, timetables for doing so, and nominal indications of those entrusted with carrying out of each part of them. NDC management guide defines planning as the process of selecting a course of action to be followed in order to reach certain desired end results.

In sum the whole management planning process can be summarised as a mechanism to inform senior management objectives, action programmes and expected performance.

Allow senior management opportunity to control the industrial development

Provide the opportunity to compare performance (against national objectives)."

How do all the above factors relate to money management? NDC is using money to acquire resources. All action by management should influence the cash flow statements. The results as presented in Chapter 5, clearly indicate a positive response by management to adopt the three year planning system. I

managed to see plans of two of the companies. There was a difference in the manner in which they were written, but the contents were basically the same. The format too, was the same. Key problem areas and decision areas were identified. The exercise of planning being first done in some of the companies must have been difficult. May be this is the basic explanation of difference between the plans of GTEA, which in addition to the NDC plan and reporting system does a more elaborate planning and evaluation job for General Tyre International, and TT, which was doing a three year plan for the first time. The differences in plans might also reflect the differences between the companies brought about by an unequal possession of certain types of manpower. I have already said that the plan for EAKIL was still in the process of preparation by late September. I am sure, an acute shortage of qualified accounting staff has a significant contribution to this. Such differences, in my opinion, would pass over from the planning phase to the implementing phase, with magnification of the adverse effects to the company concerned.

The big question is whether these plans were being effectively executed. True, the exercise of planning had made management focus upon key decision area for the achievement of the objectives. But unless the plans are executed, a wastage of manpower and resources is bound to have an adverse effect upon company operation. Let me cite a few examples. Both plans of GTEA and TT had a program of implementing management information system in 1973. Only GTEA was progressing to this direction in accordance with plan. TT lagged behind. One consequence of it was my inability to get data upon which to run a linear programming model for decisions relating to the right product mix. Given the elaborate planning of the company, such a bit of information should be available in about ten minutes

time. Secondly, as the results show, planning starts with forecasted sales, then raw materials and other resource requirements. Then a forecasted profit and loss account, cash flows etc., are prepared. Failure in implementation of a single major factor may render the whole company plan useless. TT had planned expansion of the factory to meet the forecasted sales for 1974. The action programme which included cash requirements and associated activity at proper time had it:

1973	22nd February	Signing of contract
	14th April	Drawing completed
	28th April	Construction begins
	16th June	Foundation complete
	14th July	Walls complete
	11th August	Roofing complete and so on until
	30th September	Inspections

By end of June there were no signs of expansion. Even the signing of contract had not been performed. By late September when I last visited the company, nothing was there to indicate expansion in the near future. I asked one of the officials whether the plan had been put off or not, especially since a decision to build a new tannery at Morogoro had been made. He said no. The Morogoro Tannery decision was an independent one and did not affect their expansion plans at all. The official had no proper explanation as to why they had not started except that "you know the bureaucracy in this country." But production targets, sales operation costs and cash flows statements for 1974 and 1975 had taken into account all this major expansion programme. Supposing the marketing manager had used the blessings of forward planning to secure sales contracts for 1974 and 1975, what would happen? In accordance with the Law of Contract and Sale of Goods Act, the company may be sued for damages. Secondly, the credit of the company, and consequently its ability to perform business

falls drastically. The Company Year Plan states clearly that the profitability of the company will depend on the expansion programme. Plans of individual firms are harmonised and aggregated to form the NDC plan for three years. The Daily News of 24th August³² had this to say,

"The National Development Corporation (NDC) yesterday announced a new plan by which it aims to double its sales income from Sh.766,200,000/- in 1972 to 1,585,900,000/- in 1975. The plan called 'consolidated group company plan for 1973 to 1975' was approved by Board of Directors"

Such an approval include plans like those of TT which are not going to be fulfilled in time because of delay in implementation. This is one possible explanation of shortages in Tanzania at certain times. May be certain things will not be imported because they are being produced by NDC according to plan. Actual performance, then falls short of expectation resulting in adverse effects both for the nation and NDC.

Perhaps I have been over critical. One thing is clear though. The management of NDC firms are now consciously undertaking the exercise of planning. With experience, I gather, performance should be highly improved. The year plans were quite impressive to me. Above all, the many factors they looked into reflect a movement towards a systems approach to management which tries to look into different elements in business in relation to each other and the main objective.

6.3.4 Awareness of the Trend of Business

Fourth Implication of Hypothesis 2:

The NDC management of a subsidiary company knows the trend of his business.

32 Daily News, Tanzania, August 24th, 1973. Dar-es-Salaam

5.4.0 Here only GTEA management was in a position best to understand the trend. Both vertical and horizontal analysis of the Income Statement, the Balance Sheet, and the supporting schedules for the two main financial statements are done monthly. Comparisons are then made between this month, the previous month, last year this month and year to date. Management can at once tell the trend of sales, returns on investment (various measures), material costs and so forth. TBCO, TT and EAKIL had no such ratios computed. So, for the time being, the above implication of hypothesis 2 does not hold. GTEA's case must be taken as an exception or special case, for it was preparing these ratios primarily for General Tyre International. Such information was passed to NDC, not as a requirement, but as a matter of courtesy. I do not know how valuable NDC considered such information to be. I understand that General Tyre International considered it highly, and provided a feedback to the company, as I saw on the Company Notice Board, a photocopy of a letter from General Tyre International congratulating the management and workers for good performances the previous month.

Understanding of business trend very much improves decision making. Above all it points to any possible peculiar development which may call the attention of management for further investigation. It is impressive to see that the ratio performance of GTEA had been improving tremendously. Also, a preliminary analysis of TBCO accounts indicate an improvement suggesting improved management action.

Our examination of money management would be incomplete if we do not examine the scarcity of investment money in Tanzania.

33 H.E. Grundman: "EKI 69.16 Preliminary Thoughts in Industrial Strategy."

34 Binhamani: "EKI 69.11 University of Dar-es-Salaam"

6.4.0 Scarcity of Money Concept

Hypothesis 3:

Money for investment is scarce in Tanzania and this is impeding progress.

We have pointed out that by implication of Arusha Declaration, this is so. Also readings from annual reports of NDC points to problems of implementing projects resulting from lack of money. The interviews with management suggest a different picture. None of the firms visited, except EAKIL, seemed to have a problem of securing long term investment money. The problem with these companies was in getting money for the working capital which was supposed to come from the National Bank of Commerce, or other sources of short term finance as was mentioned earlier. Indeed, we have seen, even money for short term finance is available internally within NDC firms if only monetary authorities would approve intercompany lending. The EAKIL had failed to get enough investment funds because Tanzania Investment Bank (TIB) had considered its operations under present structure of the company as unviable. The Bank had suggested a number of changes before the loan could be granted.

* Is investment money scarce in Tanzania? I doubt if it is. There is no evidence to support this in the case of NDC.

In his paper,³³ "Preliminary thoughts on Industrial Strategy," Grundman concludes that "it is safe to say that finance is no bottleneck for development in Tanzania." Grundman's conclusion has been partially based on Binhammer's³⁴ paper in which the author analyses gross domestic savings expressed as a percentage of GDP at factor prices. This was

33 H.E. Grundman; ERB 69.16, Preliminary Thoughts in Industrial Strategy.

34 Binhammer: ERB 69.11- University of Dar-es-Salaam

found to be very high. Government development expenditure for the first 5 year plan was 60% financed by domestic resources. The same figure is maintained in the Second Five Year Development Plan. At the end of 1968, the amount of savings and fixed deposits held with financial institutions in Tanzania was 50% of gross fixed capital formation during the previous year. Certainly, since 1968, the ability of the government to mobilize savings has increased. National Insurance Corporation, National Bank of Commerce, Rural Development Bank and the Housing Bank have all grown in strength. Although strength in this case might not directly result in availability of money for investment, the impression one gets from the reports of Tanzania Investment Bank suggest that investment money is not a problem.

The Annual Report of TIB,³⁵ of June 1972 had this to say about economic situation in Tanzania.

"A serious problem for industrial investment planning is that investment continues to be hampered in by cost overruns. The multifarious causes range from omission of ancillary facilities in original cost estimates, design changes during construction, poor project preparation at initial stages, contract cost rises in the international based firm sector and unpredictable revaluation of foreign currencies."

Shortage of investment funds has not been mentioned as a problem or a hindrance. These other factors mentioned become important because they make a project which might have

35 Annual Report - July 1971-June 1972, Tanzania Investment Bank. Dar-es-Salaam.

been viable at one stage unviable. Obviously, from the bank's view it is not economically sound to continue financing such a project. The section of the same bank report concerning disbursements give us further insight into the situation. I have worked out the following table from figures in the Bank Report.

T A B L E 7
DISBURSEMENT OF LOANS BY T.I.B.

	JULY 1970 TO JUNE 1971	JULY 1971 TO JUNE 1972
Loans sanctioned	7,520,000/-	34,565,000/-
Disbursements of loans approved up to June 30th, 1972		
(A) Out of 70/71 Loans	5,131,000/-	
(B) Out of 71/72 Loans		3,961,000/-
BALANCE	2,389,000/-	30,604,000/-
<u>SUMMARY:</u>		
Total Loans Sanctioned 1970 to 1972		Shs. 42,085,000
Total disbursements		Shs. <u>9,092,000</u>
BALANCE		Shs. 32,993,000

Table 7 reveals a lot. Please note that disbursement (A) is for two years. Whereas, sanctioned loans rose almost 500%, loan disbursements rose hardly by 50% assuming 70/71 loans were disbursed at a rate of 2,500,000/- per year. Taking the total disbursement in relation to total sanctions for the period of 1970-72, we note with surprise that only about 21% of the loans sanctioned were disbursed. The Bank

Report continues "disbursement of loans sanctioned during the fiscal year 1971/72 was slow due to delays in completion of legal formalities and fulfillment of the pre-conditions attached to loans and a slow start to new projects."

What does the above mean? There were funds already made available for investment, but due to other factors this money was not disbursed. In other words, it remained in the bank's hands. Albeit the bank may have used the money elsewhere, the fact still remains that money was available for projects, for a given period of time and the bulk of it was not taken. The report still indicates the potentials available to be immense.

"TIB has continued to make good progress in its efforts to attract external financial assistance directly or through the Government. During the year TIB was visited by 5 Appraisal Missions CIDA has recently extended a loan of Canadian dollars 2 million (Sh. 13.2 million) on very soft terms to Tanzania for lending to projects through TIB. SIDA (Sweden) has agreed to refinance two loans sanctioned by TIB totalling shillings 7.65 million out of its first credit granted to NDC."

Writing in "Rasilimali" in an article "TIB as tool for Accelerating Economic Growth,"³⁶ C. Kahangi, the General Manager of TIB had this to comment on the relatively few number of projects in which TIB had invested.

".... This relatively small number of commitments in projects is not because of lack of financial resources, but because of lack of sufficiently well prepared projects to justify the financial support. The shortage of well prepared projects is a result

³⁶ "Rasilimali" - Tanzania Investment Outlook. TIB, January 1973

of the shortage of skills needed by the clients in preparing projects for financing."

TIB, then as a mobiliser of both external and internal funds for long and medium term investment is doing well and has funds available. By legislation TIB finances only economically sound projects that are in line with national policies. It seems from the report that projects ready to proceed have not failed to obtain finances. So there is no justification for the claim that money for investment in Tanzania is scarce. We can go many more steps further to substantiate this claim. Let us go at least one step by glancing at the views expressed by Dr. Csagoly, Chief Development and Research Officer of NDC, in the latest issue of Jenga.³⁷ ".... There is the National Budget for instance which sets aside several millions of shillings annually for development purpose. There are also many more shillings in form of foreign loans and grants some on very favourable terms on Treasury's 'waiting list' at TIB, EADB and other institutions. Thus whatever the motive behind donor countries, whether they are giving us their money in good faith or only intent on promoting their personal business in Tanzania, the fact still remains and that is lots and lots of unspent monies are lying idle all around us in big plentiful. If Tanzania could organise these funds in much more efficient manner, many more loans and grants could still come our way."

What does the conclusion that money for investment in Tanzania is not scarce imply for NDC? And how is this important in our examination of money management? To me the above conclusion implies the ability of NDC subsidiary firms and the corporation as a whole to achieve the expected results does

37 JENGA No. 14 of 1973. NDC, Dar-es-Salaam

38 See John Boarden, 'MIS is a Mirage' Harvard Business Review, January-February, 1972

not depend on availability of money. Rather it depends on the ability of management to come out with clearly defined and evaluated projects that will result in net cash flows when all costs have been accounted for. If this condition is met, the success of the firms will depend on the exercise of hard and intelligent work. It needs intelligent use of available information to secure funds from banks. How quick the firm is in implementing plans matters very much. The marketing strategy, purchasing schemes, worker relations etc. are things which will determine the productivity per shilling invested. If there is any unexpected results in NDC firm lack of money should not be entertained as the cause. Other factors should be looked into. For instance, we have seen that none of the firms interviewed uses discounted cash flow method in evaluating its projects even when the NDC management manual on project evaluation recommends it. More of these factors will be mentioned later. Let us look at another insight by considering my last hypothesis.

6.5.0

Application of subsidiary Company Information

Output and Input

Hypothesis 4:

NDC subsidiary firms relate their information input and output to relevant subsystems within their environment.

Walter Kenneran³⁸ defines Management Information System as "an organized method of providing past, present and projection information relating to internal operations and external intelligence. It supports the planning control and operational functions of an organisation by furnishing uniform information in the proper time framework to assist the decision maker."

38 See John Dearden, 'MIS Is a Mirage' Harvard Business Review, January-February, 1972

NDC seems to have endorsed the above concept for itself and its subsidiaries. It has a Management Information System Manual which outlines the flows of various types of information within NDC and how such information may help management to make better decisions. During my research I found plans and expressions of intention to implement management information systems. I personally believe if information input and output of a firm is properly utilized better decisions and execution of plans result. This is one measure of application of intelligence in management. It seems to me some of the firms visited were not applying properly the information they already had and unless one can apply the little information he possesses, he will not be able to apply greater volumes of it. In fact, it may be a hindrance to his ability to discern problems and fail to make right decisions. Three examples will suffice.

I have mentioned that production of bags in Tanzania before the establishment of Kenaf Industries was 4 million bags. EAKIL would produce about 4 million to make a total of 8 million. This would still fall short of demand by about 4 million. EAKIL and indeed NDC knew this long before planning of production. To the surprise of the firm, the bags could not be sold. Why? STC had imported enough to last the country for 12 months. I think this happened because the EAKIL did not inform the Import Licencing Authorities to regulate the import of bags, or STC herself to purchase from EAKIL. Although the contention of the Marketing Manager of EAKIL is that STC knew of the production of the new factory and imported in order to make a profit at the expense of NDC, I do not think proper arrangement was made for STC to purchase from EAKIL. As a rational economic entity, STC would not discriminate or distinguish between profits made through sale of imports or internally manufactured goods. Profits are profits, given the same money amounts. Also no arrangements had been made to solicitate direct demand by users of bags. We discussed earlier the new channel through which

EAKIL is distributing its bags. We saw that for the entire NDC corporation, the decision is sub-optimal. We also pointed out that NATEX as a distributor of textiles is not the best channel of distributing packaging and crop drying products. We mentioned that a better channel would have been the Co-operative movement whose members are the users of the bags. The decision to distribute through NATEX to me is yet another example of failure to use to the company's advantage the information input and output resources.

Tanzania Tanneries Ltd. has got a detail study of availability of hides and skins in Tanzania by regions and by districts. In purchasing this basic materials, the company competes with Tanzania Hides and Skins (THS), another parastatal organization which exports these materials raw. THS buys its materials from all over the country. There are buying stations everywhere. TT only buys at Moshi. Customers bring hides and skins at the factory and are paid cash value of their product. Of recently THS has competed heavily with TT at Moshi, thus doubling the price of these materials, in the Kilimanjaro Region. This has caused a severe constraint upon TT reducing its profitability substantially. Indeed, if this continues, the factory will be ruined. But THS can afford it because it compensates by low prices it pays for same products to the rest of Tanzania where the company is a monopoly. The manager of TT had no acceptable reasons for not establishing buying centres in other places in Tanzania. Buying from THS by TT had been rejected on suspicion that THS will export the best grades and sell to TT the lowest grades of hides and skins. Such a suspicion is, in my opinion, unjustified as the principles of commerce and laws of contract enable different parties to agree on, act and stay in certain patterns and terms of trade. TT, has just filled the year plan with pages outlining the problem and has asked the authorities and NDC to intervene in reducing prices. Furthermore, District Development Corporations were refusing to sell to TT even

where their terms were better. Why? I think TT had not directed the information available to it for company benefits. This is serious, for it greatly impairs the company's ability to make money. We have seen that the company's profitability had been reduced by increased raw material costs. Looking at the issue from the national point of view the issue is even more serious. Earlier on I cited the example of the local tailor at Moshi, who said the prices of the garments made at TT were too high for the people. One could argue the benefits went to the peasants engaged in animal keeping. I doubt this, due to known practices of middle men who pay the lowest possible to individual butchers in villages. Secondly, the prices were high only at Moshi due to unnecessary competition brought about by the company's inability to buy all over the country. Thus, the prices of the TT products do not reflect what the true prices would have been, if buying all over the country had been done. Inflated prices limit the internal market. It also limits the external market, because the export prices have got to be related to the cost of production. Thus Tanzania loses the comparative advantage it has on raw material as far as processed leather products are concerned. The company had similar problems in obtaining import licences for chemicals. It had statements for foreign exchange earnings which I think by themselves would convince exchange control authorities to grant licences at once. Information is expensive. To have it and fail to use it where its use would be clearly beneficial is a great handicap for any firm aspiring to establish yet a more elaborate information system. To this effect, my hypothesis does not hold entirely.

6.6.0 Other Considerations

6.6.1 Decision Making:

The questionnaire also sought to find out who is who in the decision making process. To what extent is the management of a subsidiary company free to make decisions with respect to use of money, obtaining money and day to day operations

of the company? To a very large extent the bulk of decisions are made by the management of subsidiary companies. Within this framework it would appear for capital expenditure decisions NDC has got to approve. The freedom to spend up to 7,000/- on capital expenditure without NDC approval, as enjoyed by GTEA, might appear an exception to this. But comparing the size of GTEA, the type of machinery they use and the like, capital expenditure outlays, 7,000/- is very little. It may be enough for, may be very minor repairs, if these could be considered capital expenditure. All the companies as we noted, had no problem of NDC Head Office accepting and consenting on proposals or recommendations of management. None of these companies seems to have any of its management's decisions rejected by NDC. I would think the approval requirement on projects might be due to the fact that NDC has got to guarantee loans to these firms, and the requirement that projects have got to be analysed within the context of national policies discussed earlier. We should not, however, forget that the approval criteria, though never changing the course of action decided upon by management, could result in delay in implementing plans and projects. This could have serious effects upon the operation of a company, and could create serious problems on money management.

Of course, we should not forget that both the subsidiary company and NDC as a whole have got to make decisions and act in a manner consistent to national policies. Disposition of profits, for instance, may be determined by Mwongozo.³⁹ For instance, recently parastatals have been forced to ask the workers to pay back bonuses granted by management as a result of good performance. To management, this was a way of motivation. According to Mwongozo, this was a misuse of public funds, which could have been better utilized elsewhere. Admittedly, such intervention is not

39 Mwongozo. TANU Guidelines, 1971. Government Printer Dar-es-Salaam.

frequent. EAKIL, for instance, has a bonus system that is functioning properly. Whether the Government or the Party intervenes, very much depends on the ability of management to interpret national policies correctly in execution of its operations.

6.6.2 NDC Awareness of the Problems and What is to be done

NDC has annual conferences where most of the management problems are discussed. New methods and programmes are discussed. Shortages of trained manpower especially in accounting fields was a major problem to every firm I visited. NDC is aware of this and programmes to train accounting personnel are on the move. NDC is determined to improve performance all the way through. But mere intentions are by themselves inadequate. Quick action is needed to impart greater exercise of intelligence in the management of subsidiary companies. The new batch of NDC accountants taken to training in July this year, will not be out until after four years even though all that could be done to shorten the course has been done. After all, it is difficult to determine how many of those taken will complete the course, and of those who complete, how many will actually work with NDC for, say, two to five years. To me all the managers visited were working hard. They were exercising a high degree of intelligence. But more intensive drive towards application of greater intelligence must be undertaken. This I feel can be done by a few consultants based at NDC Headquarters, but roving all over its subsidiary companies.

6.6.3 NDC Consultant Group

The consultants' role would be to visit the companies from time to time and discuss with them as freely and as friendly as possible their current problems in relation to goals of NDC. In a very short period, such consultants could train company management to use more effectively the information available to them. For instance, in one day, demonstration of

use of discounted cash flow methods could be done for the Chief Accountants and related staff. This I believe is so because these companies already have cash flow statements and rates of interest. Similarly, use of operations research techniques based on the already existing management information system to solve teething problems in these firms could very much excite the management into taking more interest into what they are doing. They would be more apt to adopt the new managerial techniques booming the world over. Why NDC special consulting group and not other training institutions or external consultants? First because I believe in consultancy work, there is a learning process which can be built in the group for future use. At first the Group may take much time in identifying problems of a particular firm of NDC group. But later on, they may gather momentum. For instance, I have a hunch that the problem of failing to use DCF methods is common to all NDC firms. I also suspect that the misuse of information possessed is common to many of the firms. An experience acquired in solving the problem of one firm can then be readily available to solve those of the other. A foreign firm may have been called on only temporarily. It is true its experience may be used elsewhere, just as it may use experiences of other places to solve Tanzanian problems. But the more remote the firm is, I think to a great extent, the less seriously the advice is taken. Teaching institutions, such as the University or the Colleges in Tanzania may have the academic competence but may fail to gear the knowledge to the practical needs of the firm. Incomplete understanding of the problems peculiar to firms and time limitations might make the external teachers ineffective. But within the umbrella of the NDC consultant group, it is possible to use expertise of people within these institutions and indeed within international institutions by inviting them to come in special seminars to teach special topics or to tackle special problems. The bulk of work should still remain within the NDC consulting group. Secondly, I think Tanzania has got problems of her own as far as management is

concerned. We have mentioned the problem of shortage of skills common to many if not all developing nations. But coupled with this is the transitional stage from capitalist mode of economic organisation to socialist mode of economic and social organisation of state. Thus we noted earlier that a manager need to consider many factors in project evaluation. Such would not, for instance, be the case for Kenya as well as many other developing countries. Also you cannot expect in Kenya, under present framework, for the ruling party, KANU, to force a company to demand from its workers a refund of bonuses. The wages and working conditions in Tanzania are clearly directed by the Government Directive Number 3 on Parastatals. The concept of worker participation in Tanzania is not a lip service, but it is taken very seriously. There are a number of other changes, constantly coming up. Tanzania management has been trained in a system where political considerations were not to seriously affect the Civil Service, let alone industrial management. Now the situation is different. Politics is agriculture. Politics is industry. National policies have got to be taken into account by any productive unit. All these factors demand a good understanding of what is taking place in the country, as well as an ability to predict the next major step. A permanent consultancy to NDC can keep track of all these events. They can advise the management on the use of Workers Council, Management Committees, and the use of non-monetary incentive systems. Such applications need a careful and a comprehensive study of situations, and national policies in relation to what is going on in companies. Are the factors mentioned important to money management? I think they are. A low morale due to a misinterpretation of a national policy by management or workers may result in immense loss to a particular firm, NDC, as well as the nation. Thirdly, NDC consultant firms could use NDC expert personnel available in some of the subsidiary companies. For instance, in a session in which they were demonstrating the use of and the importance of ratio analysis for the Arusha and Kilimanjaro firms, they could use

the management of General Tyre very effectively. This would also provide a challenge to the other firms as well as access of these other firms to possibly free advice available from certain personnel of the group of companies.

6.6.4 Management Conferences

Management conferences for NDC managers are good. But they are too rare even if they are done thrice a year. Management Association Meetings involving managers of NDC, other parastatals, educationalists and Government leaders would greatly facilitate exchange of information and experience. With decentralized government policy, there are now in every region very highly trained people, who can discuss meaningfully managerial problems in Tanzania. Such meetings can be held at regional level, monthly or even more frequently. I am convinced the experience of some people from some companies would be of tremendous use. Above all, managers would get to know who in the region has got specialized training in given fields. With such knowledge in such an atmosphere free consultation for problem solving is possible. Other forms of training for all levels of workers is essential if intelligence is to be exercised at all levels of work in NDC firms. Alignment of training goals with national policy of adult education should benefit all levels from labourers to top management. NDC seems to have realized these factors. But how fast is it going to act? Action will determine the actual results. NDC seems to have moved by leaps and bounds from its initial start to the present day. As Annual Report of 1970⁴⁰ puts it,

"NDC, was the first parastatal or Government body to subject itself to a thorough overhaul of its organisation and management processes. It is true today to state the corporation is a highly effective force with management duties and responsibilities at all levels clearly

defined and allocated to executives who have a planning, information and control system that enables them to establish goals for diverse set of activities and manage the achievement of these goals in an effective and responsible manner. To put it briefly, NDC can now call itself a planned enterprise within the planned economy towards which Tanzania is working."

I do not challenge the claim. But within the claim there is yet much to be done, if the claim is to outlive the test of time.

"There is always a better way of doing something." So claims the Work Study and Work Simplification people. I believe within the established framework of NDC, there is room for improvement. The key to this, I suggest is not in looking and crying for more investment funds, important as they may be, but on the development of present and future manpower of the organisation.

(a) determine the methods used to manage money

(b) identify the problem areas and hopefully

(c) come out with suggested solutions to the problems.

We looked at the NDC set up within the national context. We also looked at the set up of the firms within NDC itself. An attempt to identify other relations was done and was summarised in Diagram 1 of Chapter 2. We were then able to establish that the main objective of NDC was to make profits. In so far as profit making was concerned, there is no conflict between the various elements that relate to NDC subsidiary companies as depicted in Diagram 1. Identification

- 97 -

7.

SUMMARY7.1 General Summary

We started off our discussion by looking at the place of money in Tanzanian policies. Money management in Tanzania assumes an important role because first according to the main policy paper, money is scarce, and secondly there are institutions like the NDC which must use money to acquire resources needed for bringing about development. Within the context of the Arusha Declaration, the essence of development is hard and intelligent work. Intelligence is interpreted to mean the application of knowledge with respect to the resources we are using to achieve stated societal goals. For the people in Tanzania villages, resources would include things like time, land, people's own labour, and other resources which could easily be acquired without the use of money. For institutions like the NDC, however, every resource acquired must be obtained through an expenditure of money. It is this necessity of money, a scarce commodity in Tanzania, that prompted us to seek to:

- (a) determine the methods used to manage money
- (b) identify the problem areas and hopefully
- (c) come out with suggested solutions to the problems.

We looked at the NDC set up within the national context. We also looked at the set up of the firms within NDC itself. An attempt to identify other relations was done and was summarized in Diagram I of Chapter 2. We were then able to establish that the main objective of NDC was to make profits. In so far as profit making was concerned, there is no conflict between the various elements that relate to NDC subsidiary companies as depicted in Diagram I. Identification

of this main objective is important because the behaviour of the firm is inferred to be goal directed.

To enable our examination of money management we established four hypotheses. Hypothesis 1 related to hard and intelligent work in money management. This hypothesis had many implications namely, efficiency in selection projects, awareness of alternative sources of money, and the exercise of planning and control. Hypothesis 3 sought to examine rigorously the commonly held concept that money for investment in Tanzania is scarce. Lastly, hypothesis 4 probed into information input and output within the firms examined.

The reasoning behind the questionnaire used was exposed in Chapter Four. Here the role of money as a unit of measure of value and medium of exchange was briefly examined in relation to flow of resources within an organisation. Money management was then defined as "all those activities of management that enhance the company's ability to generate liquid cash for current operations, future expansion and yield to owners a satisfactory return to induce them to remain willing to make their funds available for the company."

In Chapter 5, the results of the questionnaire and the discussions with management were presented. Chapter 6 had comments, and observations on the results. Looking at the two chapters together, it is evident that the methods being used to manage money, and the existing problems were identified. Towards the close of Chapter 6, a few suggestions to facilitate solutions of the problems have been given.

7.2 Methods Used to Manage Money

All the four firms examined, that is, the General Tyre East Africa, Tanzania Tanneries Ltd., Tanzania Bag Corporation and East Africa Kenaf Industry Ltd. seem to have

started the exercise of money management by setting goals and defining their business in terms consistent with the set of goals. From this point on, the companies have made plans on sales, production and acquisition of resources. One aspect of planning is project evaluation. This is done within national goals by taking a criteria well set in the second five year plan in the process of establishing costs and benefits of a project. The firms were aware of the sources of finance. The parent company seemed to have been forced to look wider, in finding money for short and medium term investment. Refusal to NDC, by monetary authorities to execute inter company short term financing scheme forced the company to successfully look for external short and medium term finance. The main sources for money have proved to be Tanzania Investment Bank and East African Development Bank for medium and long term finance, while the National Bank of Commerce provided the bulk of the working capital. All the firms examined attempted to carry out a comprehensive financial planning, covering the areas of

- production
- raw materials
- manpower
- direct expenses
- general administration
- marketing and
- financial charges.

A cash flow statement is then prepared to incorporate all the inflows and outflows relating to the above plans.

Except in the case of one company, GTEA, ratio analysis to determine the business trends over time, was not being done.

7.3

PROBLEMS

One of the main problems the firms were having was in defining their business. Goals were not expressed in terms of monetary returns on investment, even though this appears to be the criteria upon which NDC is most likely to evaluate its subsidiary firms. Business has been defined, in my opinion, narrowly. While this may be adequate in the short run, it might impair the ability of the firm to make money in the long run. There could be many factors leading to such a definition of business as has been done by these firms. One very likely explanation is the present desire by the country to process its raw materials and produce as many of its consumer products as possible. Hence, "our business is tanning", "manufacturing sisal bags" and so forth.

The second major problem related to project evaluation and selection. All the factors that should have been considered looking at the Five Year Plan and readings from NDC Journal, Jenga, have not been taken into account. The most serious problem is failure to use Discounted Cash flow Method of project appraisal and capital budgeting, now reckoned to be theoretically and practically the most efficient. Probably, shortage of trained manpower and failure by management to appreciate the usefulness of the method might have contributed to this. Evidence of poor project evaluation is further seen in the light of problems being faced by one of the companies, which was failing to receive a bank loan to enable it to continue operating as planned. According to the bank, the operation of the company under present set up was not commercially viable. Given the rigorous analysis done by the bank, the case is that the earlier project analysis by NDC herself was poor. Poor project analysis causes delays in implementation and leads to sub-optimal decisions. These factors might limit the ability of the firms to make money.

Although there is a good attempt to plan and control financial activities, some of the firms seem to be incapable of using the plans as well as the information input and output properly. Examples of how a company failed to sell its products when earlier projections had indicated defficiency in supply, how the expansion programme of a company upon which a three year plan was based was lagging a year behind, and how in spite of available information about the sources of raw material, the company's profitability was badly threatened by competition in just one area of supply, all point to inability of some of the firms to use properly their plans and any other information available to them for the full benefit of the firms.

I hold the view that knowledge of how well one is doing relative to stated goals is a good motivational factor. For both management and workers, an understanding of how well business is doing over time may raise the morale, or bring about a challenge which may lead to an examination of activity. This is the role played by ratio analysis of a firm's activity. Monthly trends are recognized at once. It is very possible to visualize percentages on graphs and charts in an endeavour to make them simple to understand. Failure of three of the four companies visited, to use this signal is to me very significant in so far as money management is concerned. This is another area of problem. I do not think the reason why the ratios are not worked out is that they are difficult. They are not. The same figures already available to the company could be used. I think the main reason is that management of the firms concerned do not appreciate the importance of this tool of management. This linked with poor project analysis, and failure to use plans and information available to the firm is a major problem, which cannot be overlooked if performance is to improve.

business entity in 1970. If the company is to continue to grow in the same or greater magnitude, I suggest, the above suggestions cannot be taken lightly.

7.4

SUGGESTED SOLUTION FURTHER STUDY

The very encouraging aspect of this study is that NDC is aware of the problem of shortage in manpower. I believe that a recognition of the problem is always a major step towards solving it. We observed that the company had plans of training manpower especially in accounting fields. But present firms cannot wait four or more years necessary before the first batch of those being trained come out. So a suggestion has been made to the effect that NDC start immediately its own consultancy team whose main task will be training management of subsidiary firms in specific areas identified as problem areas. For the firms visited for instance, the consultancy group would hold seminars where, using the information available in the firms, they would demonstrate the use of discounted cash flow method. Similar demonstration of ratio analysis and proper use of company information resource could be done. Training, we said, was needed in all fields. But it may vary from firm to firm or from region to region depending on a number of factors, one being the type of manpower possessed by a particular firm. The consulting unit would have an advantage of accumulating experience, establishing continuous cordial relationships, as well as identifying and engaging experts from other areas or external organisations for specific needs of specific companies at given times. A suggestion has also been made that the possibility of formation of regional management associations be explored at once. This would provide, yet another training ground for management of NDC firms as well as those of many other organisations including Government and TANU leaders.

Finally, we noted that NDC had gone a great way towards establishing itself from almost nothing in 1965 to a strong economic business entity in 1970. If the company is to continue to grow in the same or greater magnitude, I suggest, the above suggestions cannot be taken lightly.

7.5

POSSIBLE AREAS FOR FURTHER STUDY

The ability of a firm to earn money depends on a lot more factors than we considered. We defined money management very broadly. Indeed we could as well have looked into resource management within a firm, since money is important partly in so far as it can be used to acquire resources used by the firm. Such an analysis would be too involved, since it would require a detailed analysis of every resource used by the firm. Of the resources used, the most important to me is the human element. People in the company, to a very large extent, determine the productivity of other resources. Depending on their feelings, they can restrict or expand output. The factors relating to the motivation of the workers and management in NDC firms could, therefore, be looked into. There are a number of facets to this. There is the national policy which determines wages and conditions of work. There is now the new concept (at least in Tanzania) of worker participation in management. There are party policies of politicising all institutions and making everybody aware of his needs, abilities, and rights. How do these factors influence the firm's ability to make money? How is the Tanzanian management reacting to the new power of workers resulting from liberation of their minds and adoption of new attitudes? My study could not look into these areas, because of shortage of time, and a necessary limitation of scope to avoid over generalisation. Such issues need the use of social psychology research methods and spending of much time in a single firm than I did. I managed to identify a few of such problems in one of the companies where I spent over three weeks. Such observations have not been included in my analysis as they happen to fall in slightly different line of study. The area is, however, a very important one, and a separate study could be made out of it.

Diagram I of Chapter 2 depicts important relations within NDC. We said that there was no conflict in goals as far as the five relations were concerned and as long as the

goal remained profit making. Nevertheless, interactions and pattern of behaviour between the five relations could very much affect the ability of an NDC subsidiary firm to make money or for that matter, profits. Delays to approve projects by NDC Board, delays in granting of Trading licences, and other services by the Government, imposition of minority owner interests by management, which for the time being mostly come from the minority owners, and notorious conditions by financial institutions could very much influence the successful growth or retardation of NDC subsidiary firms. So a study seeking to find out to what extent the practices of the subsystems making up the NDC configuration as presented in Diagram I do help or hinder smooth and efficient progress of NDC firms may result in immense savings and increased earning ability resulting from rationalisation of the practices of any of the subsystems. To a large extent, my study falls short of this. I think the area is a very wide one, such that relationship between the subsidiary company and one of the four other relations could be examined separately as opposed to all being examined at once in one analysis. The former will be necessary if a detailed comprehensive study is needed, whereas the latter may be enough if only a rough idea of what is going on is needed, before a detailed analysis of problem areas is undertaken.

Finally, I feel there is a need to determine the type of in-service training needed for particular firms, and consequently, design short term training sessions. We saw in my analysis that money for investment in Tanzania is not a problem. Most of the problems relate to sub-optimal application of intelligence, due to, I think, limited training on the side of management as well as workers. Even if the management and workers were well trained, in-service training would still be needed to articulate in these firms new knowledge which is on the increase everyday. Determination of the right type of training and designing of the training required thereof, is to me an important area needing a constant research. Here I

think the type of questionnaire I used is particularly useful because it probes into the current practices of management. Other similar questionnaires to supplement my questionnaire would need to be used in areas falling outside financial management aspect.

Introduction

7.6. CONCLUSION

The fallacy on the need of money for development is rampant and widely held by many people both in Tanzania and abroad. Such fallacies leave many obsessed by dreams that when we have enough money one day, our problems will be over. It is dangerous for anyone to have such illusions. It is particularly dangerous for a developing country like Tanzania because it may screen off other factors more important and relevant to development. To me the main problem in Tanzania now is lack of adequate skills and inadequate application of intelligence. While not minimising the importance of money in development, I cannot, but close this study by re-quoting the remarks of the Arusha Declaration quoted in our introductory Chapter. Indeed,

"a poor man does not use money as a weapon we have chosen the wrong weapon of our struggle because we chose money as our weapon..... The biggest requirement is hard work The second requirement of development is the use of intelligence Industries will come and money will come, but their foundation is the people."

- Arusha Declaration, Feb., 1967

NDC must constantly endeavour to develop its people and bring them into a better position to exercise higher and higher intelligence combined with hard work. This is the key to better money management and indeed, development.

- 105 -
A P P E N D I X

Such is the study intended to be done for the three
N.D.C. firms, the C. Africa, Tanzania Tanneries
Limited, and
1. THE QUESTIONNAIRE

MONEY MANAGEMENT IN N. D. C.
The study is to be
carried out through a series of questionnaires and interviews.
This is but a preliminary, quick survey - a study which, even if
intended to, cannot be all inclusive. Should such study prove

Introduction

Slightly over 4 pages out of 12 of Arusha Declaration is on money. The problem is discussed at length and it leaves no doubt that money is scarce in Tanzania.

"A poor man does not use money as a weapon. But it is obvious that in the past we have chosen the wrong weapon of our struggle, because we chose money as our weapon. We are trying to overcome our economic weakness by using weapons which in fact we do not possess."

- Arusha Declaration 5th February, 1967

The Arusha Declaration is the single most important document existing in Tanzania, and probably the first of its type throughout the history of the country. It determines, all political, all economic, and all social behaviour of the country. It dictates the policies for current and future development of the country. A large portion of the document deals with money problems. While the Declaration diminishes the importance of money as a crucial factor in development, it also hammers on scarcity of money. Therefore money management has a prominent position in achieving social goals. In looking at Money Management in any activity one could begin from different directions and could use different methods of study and analysis. For useful purposes, one would seek to

- (a) determine the methods used to manage money,
- (b) identify the problem areas and hopefully come out with
- (c) suggested solutions to problems.

5. Such is the study intended to be done for the three N.D.C. firms, The General Tyre East Africa, Tanzania Tanneries Limited, and East African Kenaf Industry. The study is to be carried out through a series of questionnaires and interviews. This is but a preliminary, quick survey - a study which, even if intended to, cannot be all inclusive. Should such study prove to be useful, it could form a base for analysis of money management in as many activities as possible.

Company was incorporated on:

It started operation on:

QUESTION 1:

capital authorized: Issued:

1. What would you identify as the main objective of your company?

- (1)
- (2)
- (3)

6. The Company was considered viable and formed on the basis of the following information:

2. What other objectives are you trying to achieve?

- (b) Political Decision
- (c) Market Analysis and Projections
- (d) Financial Analysis and Projections

7. In the process of founding of the firm what weight was given to the following factors (please explain in detail).

3. Are your goals formally specified anywhere?

(i) Commercial profitability

(ii) Effect of project on Government revenues

4. What is your Business?

5. What were the factors that led to the founding of your company?

(iv) Effect on foreign exchange and balance of payments

(v) Overall national benefit (as measured in shadow prices)

Company was incorporated on:

It started operation on:

Initial capital authorized: Issued:

N.D.C.: %

Other parties:

(1) %

(2) %

(3) %

(vii) Potential linkage effect

6. The Company was considered viable and formed on the basis of the following information:

(a) Sheer guesswork

(b) Political Decision

(c) Market Analysis and Projections

(d) Financial Analysis and Projections

8. Were any of these factors formally specified?

7. In the process of founding of the firm what weight was given to the following factors (please explain in detail, and if possible, supply underlying analysis).

(i) Commercial profitability

(ii) Effect of project on Government revenues

QUEST (iii) Cash flow return to N.D.C.

1. Approximately how much time do you spend on issues dealing with direct expenditure of money?

(iv) Effect on foreign exchange and balance of payments

(v) Overall national benefit (as measured in shadow prices)

2. The time spent on money matters can be roughly apportioned as follows:

(vi) Capital employed/worker

(i) Day to day operations

(vii) Potential linkage effect

Expansion

(viii) To confer regional benefits either through provision of a needed product/service or utilization of a product.

(iv) Replacement of equipment

8. Were any of these factors formally specified?

(v) Others * (please explain)

3. Which Department within your organisation do you communicate most with

(a) Production Department

(b) Marketing Department

QUESTION 2: Personnel Department

1. Approximately how much time do you spend on issues dealing with direct expenditure of money?

2. The time spent on money matters can be roughly apportioned as follows:

(i) Day to day operations

(ii) Expansion

(iii) New production line, or new method

(iv) Replacement of equipment

(v) Others - (please explain)

3. Which Department within your organization do you communicate most with

(a) Production Department

(b) Marketing Department

- (c) Personnel Department
- (d) Accounting Department
- (e) Others (please explain)

- (b) Replacement of a major part of equipment
- (c) Introduction of a new product line or service.

In the (In answering please rank 1, 2, 3, 5 etc. and 1 being with the department you communicate most with and 5 the least with) project been undertaken since formation of the company, please answer the questions with respect to the founding of the Company.

QUESTION 28:

4. In which area does your Company do most careful and comprehensive planning?

- (a) Production
- (b) Marketing
- (c) Personnel alternatives were there for the same goal?
- (d) Accounting/Financial
- (e) Others

(Please rank as above)

2. What was the expected net benefit: nature and amount of return on investment?

5. Since inception how many projects has the company undertaken?

3. What method do you use in selecting a project

- (a) Quick intuitive analysis
- (b) Payback

- (c) Rate of return on investment-various versions
- (d) Internal rate of return
- (e) Net present value
- (f) Others - please explain

6. What other areas of economy does the project affect?

(In case the management of an NDC subsidiary company makes decision with consultation with other parties)

What say has the management of a subsidiary on decisions

- (a) prior to making the decision
- (b) after the decision has been made?

7. How and by which areas of national economy is the project affected?

8. In making decisions as to whether to carry out a project or not, the management

- (1) can do it alone
- (2) must consult NDC head office
- (3) must get approval of Bank of Tanzania
- (4) must get approval of Economic Committee of the National Executive Council

QUESTION 3
(5) follows the following procedure (please explain)

1. Please rank in descending order the sources of your finances, 1, 2, 3, etc. 1 being the most important. Rank as 0 where the source is not applicable to your company.

A. External Sources: Long term Finance - Capital Expenditure

Foreign capital (- World Bank

9. (In case the management of an NDC subsidiary company makes decision with consultation with other parties)

(- Company

- What say has the management of a subsidiary on decisions

(a) prior to making the decision

(b) after the decision has been made?

- N. B. C.

- Rural Development Bank

- Housing Bank

- Permanent Housing Finance Company

National Insurance Company

National Provident Fund

N. B. C. - Head Office

Government - Treasury Grants

Industrial Promotion Service

Capital Equipment Manufacturers

B. Internal Sources: - Capital Expenditure

Working Capital - Short term Finance

(a) Bank overdraft

(b) Accounts Payable (i) Tax

(ii) Dividends

(iii) Commissions, etc.

QUESTION 3: - Financing of the Project

1. Please rank in descending order the sources of your finances, 1, 2, 3, etc. 1 being the most important. Rank as 0 where the source is not applicable to your company.

A. External Sources: Long term Finance - Capital Expenditure

- Foreign capital (- World Bank
e.g. (- Shareholders
(
(- Company

Bank Loan:

- Tanzania Investment Bank
- N. B. C.
- Rural Development Bank
- Housing Bank
- Permanent Housing Finance Company

National Insurance Company

National Provident Fund

N. D. C. - Head Office

Government - Treasury Grants

Industrial Promotion Service

Capital Equipment Manufacturers

B. Internal Sources: - Capital Expenditure

Working Capital - Short term Finance

(a) Bank overdraft

(b) Accounts Payable (i) Tax

(ii) Dividends

(iii) Commissions, etc.

- QUESTIONS
- (c) Trade credits
 - (d) NDC - short term funds
 - 1. (e) Other short term sources. At whose request?

2. Of the sources long term and short term you have identified, what is the cost of capital - rate of interest?

3. What criteria do you use in looking for alternative sources of capital?

- (a) Top management
- (b) Major divisions
- (c) Financial Department
- (d) External firms or organizations
- (e) Other - e.g. Financing Committee (please explain)

QUESTION 4: - Finance Planning and Control

1. Do you prepare formal financial plans? At whose request?

Please list the kinds you prepare.

2. Selling and Administrative Expenses
3. Direct labour costs
4. Material costs
5. Purchasing schedules
6. Overhead and maintenance costs
7. Capital equipment purchase
8. Market and other researches
9. External information:
10. Others - please explain

4. (a) Do you have a forecasted financial statement?

2. Who does the planning in your company?

- (a) Top management
- (b) Budget Committee
- (c) Financial Department
- (d) Dictated from NDC Headquarters
- (e) Other - e.g. Planning Committee (please explain)

(c) What use do you make of them?

3. Of the following sources of information, which is used most in financial planning - (please rank)

1. Sales Forecast
 2. Selling and Administrative Expense
 3. Direct labour costs
 4. Material costs
 5. Purchasing schedules
 6. Overhead and maintenance costs
 7. Capital equipment purchase
 8. Market and other researches
 9. External information:
10. Others - please explain

4. (a) Do you have a forecasted financial statement?

(b) What are the basic contents of each kind of plan?

(c) What use do you make of them?

5. How does planning in other areas of your company relate to financial planning?

1. Define funds to include working capital (to be extracted from financial statements later).

6. Apart from the forecasted financial statement, what other means of control do you employ in your company?

7. What extra information do you think you need to improve your planning and control of finances?

QUESTION 5: - Funds flow Statement

1. Define funds to include working capital (To be extracted from financial statements later).

QUESTION 6:

1. Collect accounts for Horizontal and Vertical Analysis. Are expenses falling over the period of years? Is the company earning ability per shilling invested, rising, constant, or falling? Financial performance is a good reflection of managerial efficiency.
2. The accounting information will be re-arranged in columns that will permit both horizontal and vertical analysis.
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General Remarks:

- A. Jenga, the NDC Quarterly Magazines contain invaluable information about NDC activities in Tanzania. The magazine publishes some good feature articles on industry and economy of Tanzania written by people of other institutions such as the University of Dar-es-Salaam or other public corporations even if they are critical of NDC activities. In my thesis I have footnotes for particular number of Jenga used.
- B. Economic Research Bureau Papers of the University of Dar-es-Salaam cover many aspects of Tanzanian economy. It is unfortunate that I could not get access to all of them, despite my exhaustion of papers available at IDS' library at the University of Nairobi and the Co-operative College, Moshi. The problem might have arisen probably due to the fact that some are restricted. The more appropriate reason might be lack of demand, and therefore pressure upon the librarians concerned to order them. The University of Nairobi library is very lacking in such papers. The Co-operative College of Moshi library has, however, ordered whole volumes. A full list of Economic Research Papers of the University of Dar-es-Salaam is available at IDS Library, University of Nairobi.
- C. The two Tanzania newspapers, Daily News and Sunday News have been quoted in the bibliography due to their remarkable attempts to have feature articles on Government policy, and economic activities in Tanzania. Readers Forum of these papers also give some insight into many aspects of national policies.
- D. Nyerere's book, Freedom and Socialism, is fundamental for understanding of post-Arusha Declaration policies in Tanzania. It contains President Nyerere's major speeches for the period 1965-68. The valuable document of Arusha Declaration is also in this book.