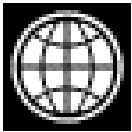


PEFAR 2007 – Performance Review of Selected Public Enterprises and Government Bodies



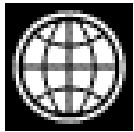
**Parminder Brar
Lead Financial Management Specialist
The World Bank**

**Annual Review of General Budget Support
Dar es Salaam
October 31, 2007**



Overview

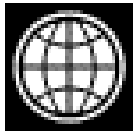
1. PEFAR 2007
2. Selected Issues:
 1. Tanzania Petroleum Development Corporation
 2. Tanzania Ports Authority
 3. TANESCO
 4. Procurement Issues
3. Next Steps



PEFAR 2007

Public Expenditure and Financial Accountability Review

- Year 1: Focus on Central Government (2005)
- Year 2: Focus on Local Government (2006)
- Year 3: Focus on Parastatals / Govt. Bodies (2007)

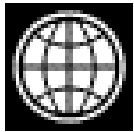


PEFAR 2007

MOF Treasury Registrar is responsible for managing GoT equity in almost 190 undertakings with an equity investment of around Tsh. 3 trillion.

Parastatals selected jointly with the Treasury Registrar / MOF from the following table:

| Public Parastatals | Government Institutions | Water Authorities | Regulatory Bodies | Government Institutions of Higher Learning | Joint Ventures | Under PSRC |
|--------------------|-------------------------|-------------------|-------------------|--|----------------|------------|
| 20 | 85 | 34 | 22 | 12 | 4 | 14 |



PEFAR 2007

2007 Parastatal and Government Bodies Assessment Team:

Ministry of Finance.....Co Team Leader

World Bank.....Co Team Leader

CIDA

DFID

Embassy of Finland

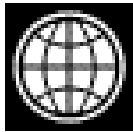
Embassy of Ireland

Embassy of Norway

Embassy of Sweden

European Commission

PPRA

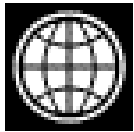


PEFAR 2007

The analysis focuses on (i) operational (ii) financial (iii) human resource and (iv) procurement performance.

Assessment based upon FM Capability Model, PEFA Indicators, OECD DAC Procurement Indicators, OECD Principles of Corporate Governance, Tanzanian Accounting Standards and Laws. The assessment process is currently ongoing.

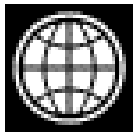
| | Parastatal / Government Body | Lead Agency | Draft Report | |
|----|--|-------------------------------|---|------------------------|
| | | | Operational / Financial / Human Resources Aspects | Procurement Assessment |
| 1 | TanESCO | Embassy of Sweden | Yes | Yes (PPRA) |
| 2 | Dawasco | European Commission | Yes | Yes (CIDA) |
| 3 | Tanroads | European Commission | Yes | Yes (PPRA) |
| 4 | Tanzania Ports Authority | Embassy of Finland | Yes | Yes (Finland) |
| 5 | Medical Stores Department | Swiss Development Cooperation | Yes | Yes (CIDA) |
| 6 | NSSF | World Bank | Planned | Yes (CIDA) |
| 7 | Coffee Board and Cotton Board | Embassy of Ireland | Yes | Planned |
| 8 | Tanzania Petroleum Development Corporation | Embassy of Norway | Yes | Planned |
| 9 | University of Dar Es Salaam. | Embassy of Norway | Yes | Yes (CIDA) |
| 10 | Zanzibar Insurance Corporation | Embassy of Norway / DFID | Yes | Planned |



PEFAR 2007

Overall dynamic picture of changes underway in public enterprises and government bodies.

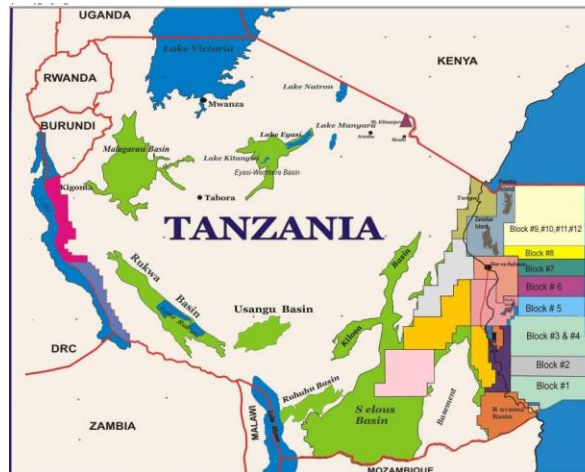
- Crop Boards: Major restructuring underway. Change in funding pattern. Initial challenges still need to be overcome.
- Dawasco: Effective new management, significant improvement in meeting performance targets.
- MSD: Four fold increase in sales over the last five years, stronger organization, needs better costing information, and to improve out of stock situation. Challenges to operational autonomy still remain significant.
- TanESCO: New Management, financial recovery plan approved by Cabinet in 2007, reform process is on track
- Tanroads: Huge increase in funding for road maintenance, improved institutional capacity, most compliant with Public Procurement Act 2004.
- Tanzania Ports Authority: Major improvements in productivity, challenges remain for completing privatization process on the landlord model.
- TPDC: Lot of interest in exploration activities, significant increase in number of production sharing agreements.
- University of Dar: Major transformation over the last 15 years. Student body increased from 3,000 in 1990 to 20,000 in 2007. Unique PPP arrangement. Funding remains a critical constraint.
- Zanzibar Insurance Corporation: Faces increasingly challenging environment. Privatization options need to be actively explored.

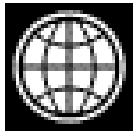


Issue 1: Is adequate funding being provided for critical public enterprises?

Tanzania Petroleum Development Corporation (TPDC) is responsible for the following functions:

- Develop an adequate industrial base for the oil industry;
- Explore and produce oil and gas;
- Acquire interests in projects or enterprises associated with exploration and production of petroleum;
- Hold exploration and production rights for oil and gas;
- Contract, hold equity and participate in oil concessions, franchises and licenses.



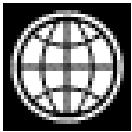


Following a decision of Government, w.e.f. 1st July 2005 revenues from sale of natural gas are remitted to the Treasury, instead of being retained by TPDC. Government in turn provides TPDC with an annual subsidy.

What TPDC is receiving is PE, reduced OC and negligible Development Funds.

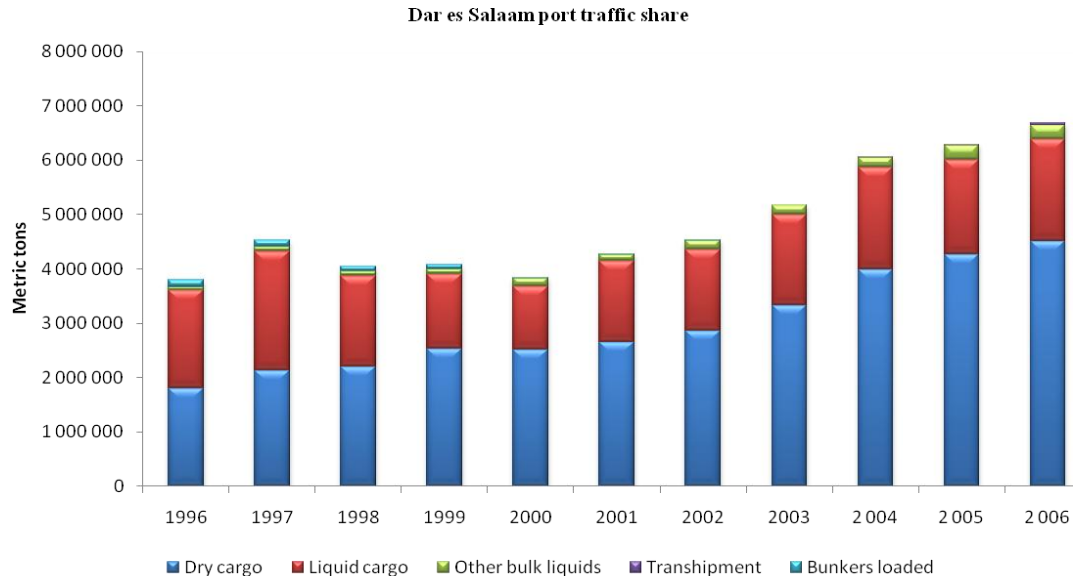
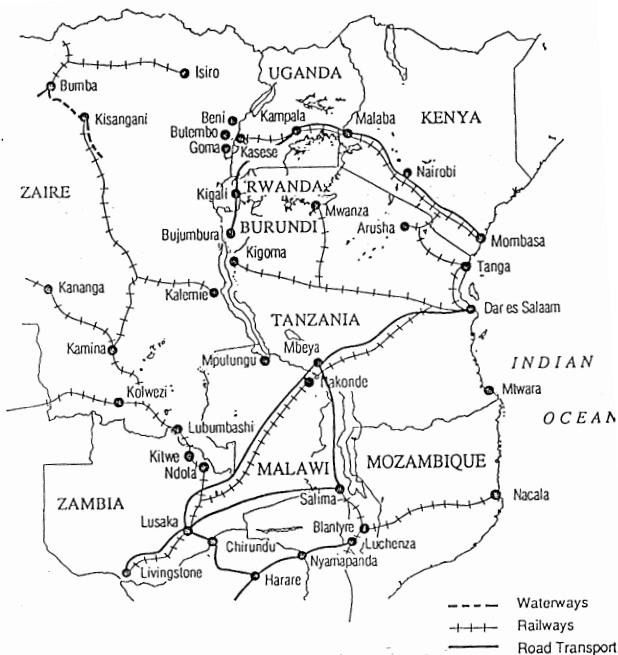
| Item | TPDC Realistic Budget 2007/08 | Amount allotted from Government |
|--------------------------|----------------------------------|------------------------------------|
| Personal emoluments (PE) | 1,987,241,927 | 1,591,733,000 |
| Other charges (OC) | 4,750,512,465 | 925,865,700 |
| Development Funds | 36,105,000,000 | 1,000,000,000 |
| Total | 42,842,754,392 | 3,517,598,700 |

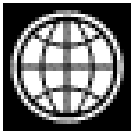
This adversely affects its ability to undertake exploration activities, and invest adequately in existing and fresh production sharing agreements.



Issue 2: Is revenue from major infrastructure assets being adequately captured?

Tanzania Ports Authority (TPA) is responsible for developing, managing and promoting the port sector in Tanzania. The port of Dar es Salaam handles 95% of Tanzania's international trade and is strategically located for servicing a vast hinterland. Productivity and turnover has increased significantly in the last few years.



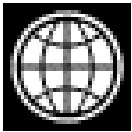


Dar es Salaam Port Modernization project was undertaken in three phases between 1985 to 1999 at a cost of around \$500 m. . Funding was provided by the World Bank, Sweden, Norway, Finland, Italy, Australia, UK and Denmark.

Container port was privatized in 2000 through a competitive bidding process. Hutchison Port Holding acquired a controlling stake in 2001. Leasing arrangements were the following:

- Lease was for a ten year period comprising a fixed annual payment of US\$3.68 m. and a throughput fee of US\$ 13 per TEU
- Performance bond of US\$ 5 m. was issued in favour of the Lessor
- Performance targets were the following:
 - Years 2-4: 20 Crane Moves Per Hour
 - Years 5-10: 25 Crane Mover per Hour
- After the first year, tariffs were to be reduced by a fixed amount equal to 3% of the starting level in each year of the lease for the first five years.
- By 5th year, expatriate staff would have to be reduced by 50%.

Ten year period was chosen since it would help establish a baseline for financial and operating performance. No major investment would be required in the first 10 years.

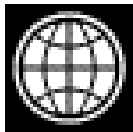


Lessor has met the stipulated targets. Container throughput increased to 360,000 TEU in 2006 from 125,000 in 2000. World Bank study “Privatization Impact Assessment” of July 2005 stated that :

- THA management feels it has lost money on the transaction value itself...
- At the financial level performance, TICTS is reported in the press as the most profitable unit within Hutchison Port Holdings; this due to high tariffs.

Lease was to run till 2010. However in 2005 it was extended to 2025 on a non competitive basis. No reference was made to PPRA. Were the provision of the Public Procurement Act 2004 complied with in granting this extension?

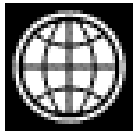




Issue 3: Is the management structure of public enterprises being adequately respected by Government?

Electricity coverage in Tanzania is 10%. In rural areas it is less than 2%. Installed capacity is around 1,000 MW, around 50% of it being hydro.

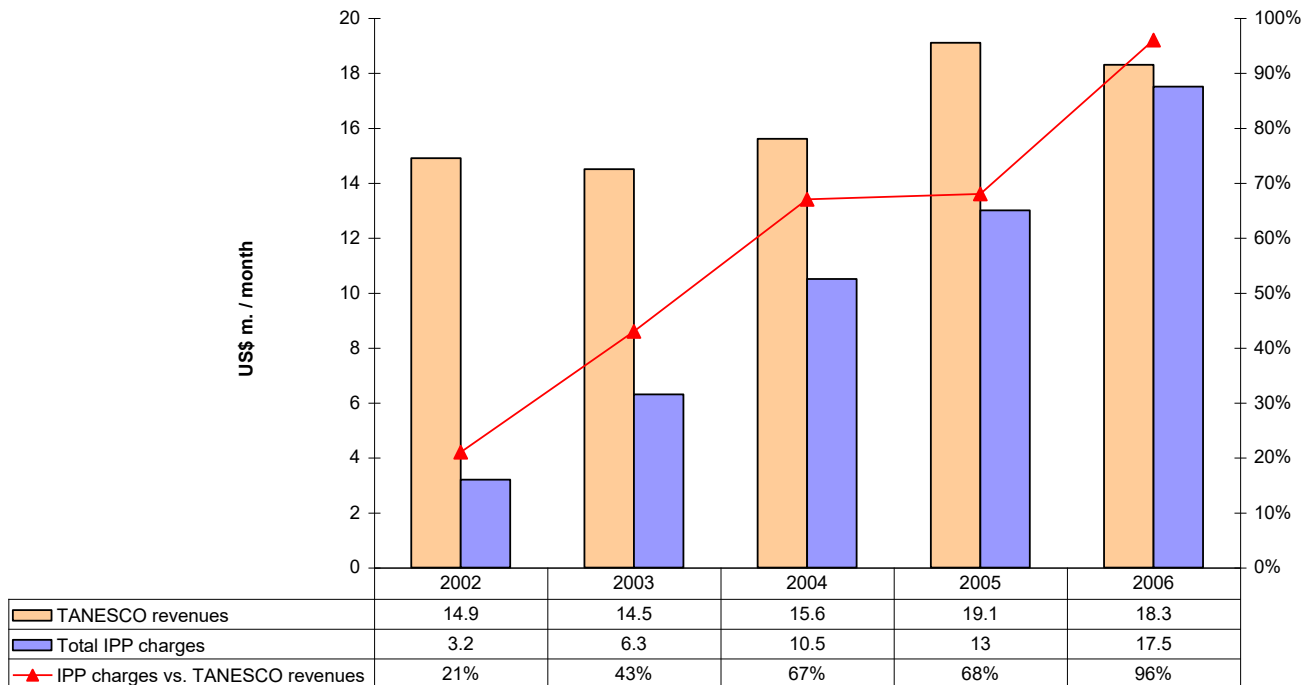
| Plant | | Installed Capacity MW | Ownership | Fuel | Annual Generation GWh | |
|--------------------|----------------------|-----------------------|----------------------------|-------------|-----------------------|----------------------|
| | | | | | 2006 | 2007 |
| Hydro | Mtera | 80 | TANESCO | Hydro | 97 | 344 |
| | Kidatu | 204 | | | 488 | 907 |
| | Kihansi | 180 | | | 501 | 927 |
| | NYM | 8 | | | 22 | |
| | Hale | 21 | | | 62 | |
| | Pangani | 68 | | | 266 | 454 ¹ |
| <i>Total hydro</i> | | <i>561</i> | | | <i>1,436 (41.5%)</i> | <i>2,632 (64.9)</i> |
| Thermal | Ubungo | 192 | Songas | Natural Gas | 1,303 | 1,064 |
| | Tegeta | 100 | IPTL | HFO | 640 | 32 |
| | Grid connected | 23 | TANESCO | IDO/Gas Oil | 20 | 0 |
| | Kiwira | 6 | Kiwira Coal and Power Ltd. | Coal | | 0 |
| | Njombe | 2.5 | RANWAT SPP | Biomass | | |
| | Ubungo | 100 | TANESCO | Natural Gas | - | 44 |
| | Ubungo | 40 | Aggreko (lease) | Natural Gas | 57 | 223 |
| | Ubungo | 100 | Dowans (lease) | Natural Gas | | 60 |
| | Mwanza | 40 | APR (lease) | Diesel | | 0 |
| | <i>Total thermal</i> | | <i>501</i> | | | <i>2,026 (58.5%)</i> |
| Grand Total | | 1,064.5 | | | 3,462 | 4,055 |

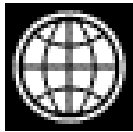


TANESCO

Power utility company – TANESCO - has been in financial crisis since it is unable to meet its operating costs and power purchase obligations. Payments to IPTL and Songas accounted for 96% of monthly revenues in 2006. A financial recovery plan is in place through moving towards cost recovery tariffs and reducing the per customer cost of supply.

IPP Charges (IPTL and Songas)

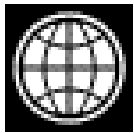




PPRA's Assessment of Tanesco includes 6 Case Studies.

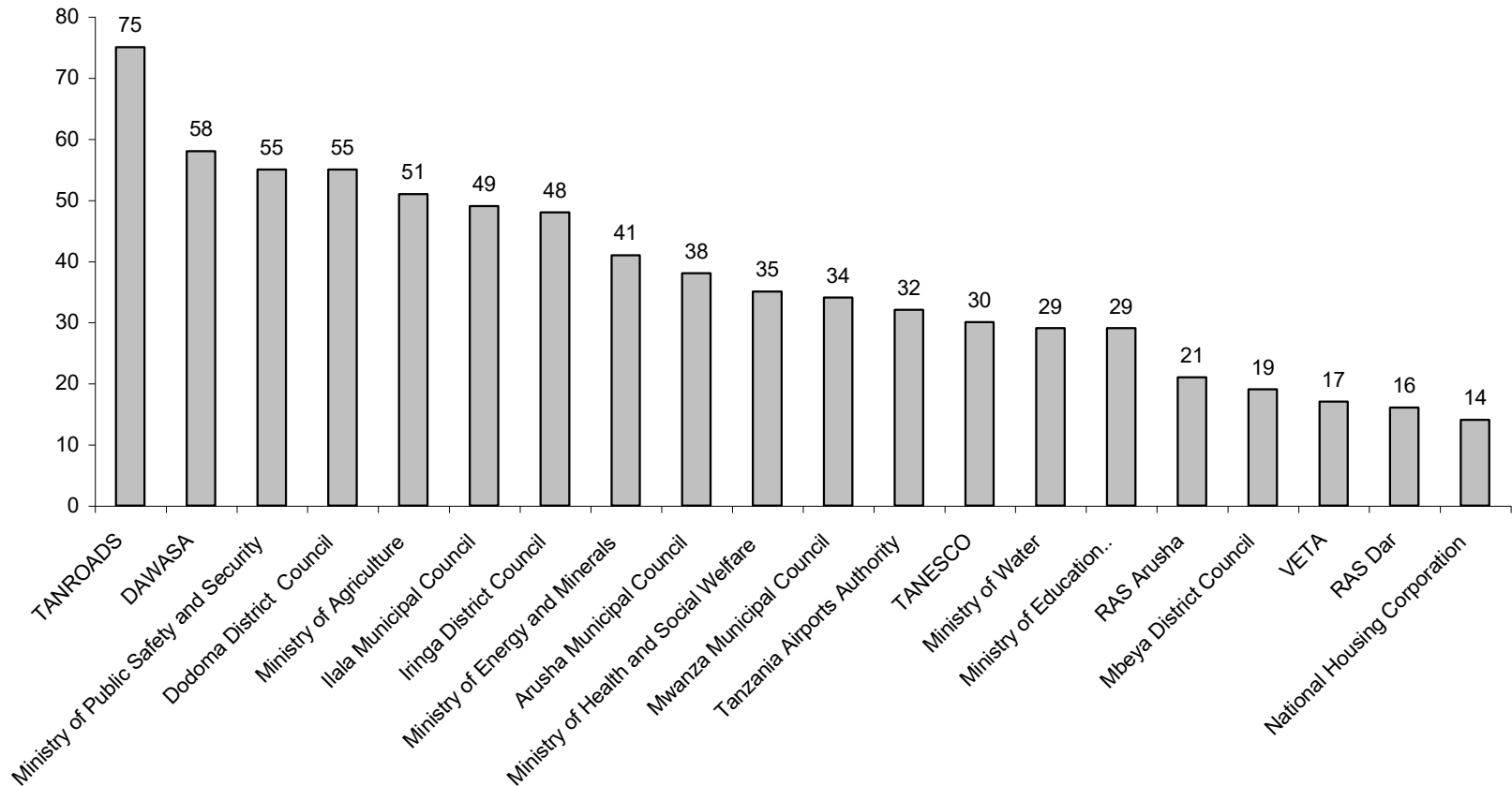
PPRA Case Study: Emergency Power Supply from rental gas based generating plant of 100 MW – Richmond Development Company LLC

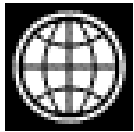
- Procurement Plan was not prepared
- No cost estimates for the bid;
- Bid opening on 20th March 2006
- Tanesco Tender Board at its meeting on 28th and 29th March 2006 disqualified all 8 bids as being non responsive. Tanesco evaluation report stated that the Richmond submission was the poorest technical proposal among those submitted and that the company did not demonstrate and previous experience in similar projects;
- Ministry of Energy and Minerals recalled bid documents from Tanesco, processed them itself and selected Richmond
- Negotiation with Richmond carried out by Ministry team
- Tanesco Board ordered to sign the contract
- Contact between Tanesco and Richmond signed late at night in the Ministry on 23 June 2006 – 35 days after bid validity deadline
- No performance bond; Richmond defaulted on its obligations. Taken over by Dowans Holdings SA
- Delay of over 200 days. Who is responsible for liquidated damages?



Procurement

Other PPRA Case Studies provide details of non compliance with procurement procedures. Tanesco is one of 20 entities reviewed by PPRA. This review shows very weak compliance with basic procurement procedures in key spending Ministries / undertakings.





Procurement

Issue 4: Is there follow up action on PPRA findings?

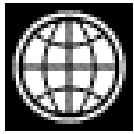
PPRA needs to advise regarding next steps in accordance with the provisions of the Public Procurement Act, 2004.

It has not referred any case to the competent authority in accordance with provisions of Article 14 (1) of the PPRA Act.

Nor has it implemented the provisions of Article 17 (1):

17 (1): The Authority may recommend to the competent authority, where there are persistent or serious breaches of this Act or regulations or guidelines made under this Act:-

- (a) The suspension of officers concerned with the procurement process in issue;
- © the disciplining of the Accounting Officer or Chief Executive Officer....



Next Steps

Successful enterprises have three basic characteristics:

- Have clear and focused goals for delivering services;
- Management is autonomous and staff are accountable for results;
- Enjoy financial independence.

Results of the assessment are mixed.

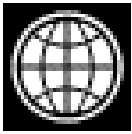
Timeline:

Draft Reports to be shared with Public Enterprises and Line Ministries;

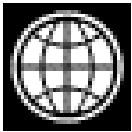
Discussion with stakeholders in December 2007

Individual reports finalized by Q1 2008

Synthesis Report issued in Q1 2008



Thank You



Thank You