Tea Estate Rehabilitation in Tanzania

MIKE FABER*
Institute of Development Studies, Brighton, U.K.

Summary. — Following nationalization, tea production at the Kwamkoro and Bulwa estates in Tanzania fell by almost 80%. The article describes the reasons for this decline and why it was decided to enlist the assistance of an outside investor, the Commonwealth Development Corporation, to manage the process of rehabilitation. Recovery was assisted by the implementation of Tanzania's Structural Adjustment Programme, but even when the physical problems of production had been resolved difficulties persisted in dealing with bureaucracy and labor practices. Lessons are drawn for dealing with similar projects in other difficult environments.

1. INTRODUCTION

This is an account of the effective denationalization and the equally effective rehabilitation of two Tanzanian tea estates. During 1976–86, tea production at Kwamkoro and Bulwa persistently declined until it had reached barely one-fifth of earlier levels. Here were two particularly poorly performing projects in a generally poorly performing economy. From 1987–88 production started to recover: in 1993 it exceeded the peak levels achieved some 18 years previously. As with all rehabilitation projects, the key questions are: What caused the previous declines? What is different this time around?

In seeking to answer those questions, our account proceeds as follows. Section 2 summarizes the early history of the estates and discusses their place within the country’s tea industry. Section 3 traces the causes of project decline in the years following nationalization and quotes the Tanzanian Government’s early estimated costs of project rehabilitation. Section 4 discusses the options that the government faced in 1986 and the choice of strategy that was adopted. Section 5 describes the basis of the involvement of the Commonwealth Development Corporation (CDC). Section 6 describes the rehabilitation work that was performed and its early results. Section 7 discusses the macroeconomic policy framework and some management issues. Section 8 discusses certain new issues that have emerged in the course of the rehabilitation. Section 9 asks what lessons of general application might be drawn from this case study.

2. EARLY HISTORY

The East Usambara mountains rise just south of Tanzania’s border with Kenya. Here, at an altitude of 3,000 feet, the German colonial government established a botanical garden and research station and German settlers planted a number of coffee gardens. Following Germany’s defeat in WWI, the Germans were dispossessed of these estates which were then purchased by British or Indian commercial firms. Between the late 1940s and the early 1960s the area was replanted with rainfed seedling tea spread over five estates. Kwamkoro (with 630.5 ha under tea) was planted in the 1950s by Bird and Company (Africa) who were already prominent in sisal production. Bulwa (with 680 ha under tea) was an amalgamation of an estate developed by Sikh Sawmills in the late 1950s with a neighboring estate developed by George Williamson in the late 1940s which Sikh Sawmills had purchased. Bird and Company (Africa) was nationalized in 1967 and Sikh Sawmills Company was bought out by government in 1971.

In retrospect the nationalizations undertaken in the sisal and tea sectors appear curiously episodic. In sisal, some 60 of just over 100 estates were nationalized on the grounds that they were foreign owned or not contributing adequately to the national economy. Many in fact had simply been abandoned. It was not government policy to nationalize the tea estates possibly because of the adverse reaction anticipated at the London Tea auctions. The two estates in the East Usambaras were taken into public ownership because they formed part of the operations of companies mainly involved in other sectors. Thus, when nationalization did occur, Bulwa Estate was initially placed under the Tanzanian Wood Industry Corporation (TWICO) and Kwamkoro Estates was placed under the Sisal Corporation, later to be

The combined production of made tea at the two estates now owned by the East Usambara Tea Company (EUTCo) is displayed in Figure 1. Broadly speaking the decline of the estates extended over nine years; the recovery has taken five.

Tanzania produces about 1% of the world output of tea. It is one of Tanzania's six leading export crops, the others being coffee, cotton, tobacco, sisal and cashew nuts. Tea was the only Tanzania crop to have increased its world market share, by volume, during 1960–85.

The major part of the industry is located in the Southern Highlands which also produces the higher quality teas, due to higher altitudes. Most production still comes from tea estates, but some 30% is produced by smallholders whose production is sold to factories run by the TTA. By 1994, EUTCo should be contributing about 14% to Tanzania's total tea production.

3. CAUSES OF DECLINE

The possibility of rehabilitating the two East Usambara tea estates was examined in two reports prepared by the Project Preparation and Monitoring Bureau (PPMB) of the Agricultural Planning and Marketing Division of Tanzania's Ministry of Agriculture and Livestock Development. The report for Bulwa was completed in November 1983 and that for Kwamkoro in June 1985.

An FAO economist who was working in the Ministry of Agriculture at the time comments as follows:

To understand the nature of the two PPMB reports it is necessary to look back to the economic position in Tanzania in the period 1982–4, the attempts by the Ministry to impose some kind of order on development budget expenditure and the political sensitivities of the time. Tanzania was in a position of deadlock with the IMF and the World Bank over the exchange rate issue and the economy was going into decline. Development Budget funds were being used to fund a wide variety of different activities, many of them of a recurrent or replacement nature, and with little or no economic justification. PPMB was charged with preparing rehabilitation projects in the export crop sector, partly in order to make development expenditure on commercial parastatal activities more systematic. The context was a situation where the level of the exchange rate made it very difficult for any of the run down estates to generate sufficient funds to pay for their own revival or to finance the repayment of loans.

The two Ministry of Agriculture reports do not explicitly list the causes of decline at the two estates. They list various constraints and offer the PPMB’s view of what would be required to bring about project rehabilitation. From those prescriptions it is simple to infer what the reports’ authors believe had been going wrong. At the heart of the problem in each case was a shortage of estate labor, especially for plucking, and inadequate access to foreign exchange for replacements and repairs. As production declined, both estates fell into loss which further compounded cash shortages, leading to late payment of the labor force, less supervision in the field, lower applications of fertilizer and herbicide, a deterioration in the quality of leaf, neglect of maintenance at the factories, higher unit costs of production and a self-reinforcing process of further deterioration and decline.

Specific “constraints” listed in the two reports included the following:

(a) Greenleaf production

Shortage of field labor due to late payment of wages, lack of an incentive payment scheme, and
shortage of commodities to purchase. On Kwamkoro, fertilizers had not been applied for four years and on Bulwa the herbicide spraying equipment was cited as being in very poor condition.

(b) Roads

Lack of a program of continuous maintenance on the estate roads made it difficult for pluckers in neighboring villages to get to work, while the public road to Muheza became impassable after heavy rains.

(c) Factory buildings

Both factory buildings were old, in very poor condition and had roofs which leaked. Storage space for fuelwood was insufficient so that some was stocked outside and deteriorated. Bad ventilation affected workers’ health.

(d) Factory and workshop equipment

The workshops had an inadequate range of tools and equipment. The TANESCO electricity supply was frequently interrupted. Some stoves were in dangerously poor condition. Cracked heat tubes allowed smoke to escape through the wet tea and gave it a smoky flavor.

(e) Transport facilities

The vehicle fleets were old, depleted, subject to frequent breakdown, and expensive to maintain. Estate managers thus found it difficult to supervise labor, to communicate with the factory, or to arrange for the prompt collection of greenleaf.

(f) Workers’ housing

The housing for tea pluckers, drivers and factory workers was old and in need of repair. Some blocks were flooded during the long rains. The number of units was insufficient for the additional migrant pluckers required in the peak plucking seasons. Housing for management was also inadequate.

(g) Fuelwood

Although enough fuelwood was available for the much reduced 1983 levels of production, larger plantations would be required if tea production were to be expanded sufficiently to make the estates profitable.

(h) Institutional constraints

On nationalization, Kwamkoro became a subsidiary of the Tanzania Sisal Authority (TSA) and its assets were amalgamated with those of the TSA. In consequence the company had no collateral to offer and could obtain neither overdraft facilities for working capital, nor a line of credit for fertilizers or herbicides, nor financing for vehicles or equipment. Ignorance of the market and eagerness for cash induced the TSA to enter into forward contracts for the sale of Kwamkoro’s tea which, when the price of tea rose over 1982, turned out to be extremely disadvantageous.

The reports do not overtly criticize the quality of management of the estates. Perhaps that is a difficult thing for civil servants to do when writing about a state-owned enterprise. Yet much of the situation they describe could only have come about through mismanagement — by the enterprise itself, by the parastatal controlling it, by the Ministry responsible for

<table>
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<th>Table 1. Total and proportionate costs of rehabilitation*</th>
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<td><strong>BULWA + KWAMKORO = EUTC0</strong></td>
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<tr>
<td>1. Estimated capital expenditure</td>
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<td>a. Housing for management and workers</td>
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<td>f. Fuelwood plantation additional</td>
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<td>g. Civil works (mainly road improvements)</td>
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<td>h. Consultancy and technical assistance</td>
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<td>3. Additional working capital required</td>
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<td>4. Total financing requirement</td>
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*The Bulwa figures are in 1983 pounds sterling converted at the rate of TSh 18.5 = £1, and the Kwamkoro figures are in 1984 pounds sterling converted at the rate of TSh 21.8 = £1. Adjusting for the 1983-84 UK rate of inflation would bring the total financing requirement up to £2.6m. in 1984 sterling prices.
that parastatal, or by those responsible for the government's macroeconomic policy.

The actual physical state of the factories is well conveyed by the following comments taken from a later CDC appraisal of the needs at Kwamkoro factory.

There is one Steelsworth 15 inch rotovane with 20 hp motor claimed to have an output of 1,100 kg/hr, half the internal resistors are missing and there are no spares available. Conditioned leaf is fed into one of two Lawrie Tea Processors (LTP) capable of processing 1,600 kg/hr. One LTP is inoperative and spare blades for the other are locally made with only a very limited life. No spare knives or beaters from the UK manufacturer are available. The LTP is fed by a 1.5 m long conveyer fitted with a 1.5 hp electric motor. The electric cable lies on the floor in this department and is unprotected.

Table 1 indicates the projected expenditures that the PPMB estimated would be involved in the two rehabilitation projects.

4. OPTIONS FOR RECOVERY

The PPMB reports conclude by considering three possibilities. The first is that the estates and their factories should simply be closed down in view of their declining performance and the losses they were incurring. This possibility was immediately rejected as being politically impossible and economically unjustifiable in view of the fact that both estates were still net earners of foreign exchange. The second possibility was that the estates and factories should go on producing (at a loss) but with minimal renovation expenses, in which case it was assumed that the factories should simply be closed down in view of their declining performance and the losses they were incurring. This possibility was immediately rejected as being politically impossible and economically unjustifiable in view of the fact that both estates were still net earners of foreign exchange.

The third possibility was that the estates and factories could be run for another 10 years, by which time neither estate nor factory would have any residual value. The third possibility was that each estate should be fully rehabilitated at considerable capital expense, but with the prospect of substantial increases in production and earnings and an eventual return to profitability. This third possibility was what PPMB recommended.

As regards ownership and management, again a number of possibilities were considered. One was that Bulwa and Kwamkoro should each remain separate "autonomous companies" owned and managed by the TTA. A second would involve the merger of Bulwa and Kwamkoro into a new "East Usambara Tea Company" (EUTCo) which would still be wholly owned and managed by the TTA. The third envisaged the introduction of private capital into EUTCo with a view to strengthening management and relieving government of the responsibility for finding the foreign exchange that would be needed to effect rehabilitation. It was this third possibility which the government decided to explore in talks with the Commonwealth Development Corporation (CDC) in late 1985.

In conducting the two feasibility studies the PPMB had adopted the "with and without" method of calculating the incremental rates of return that would accrue from an investment in rehabilitation. That technique, which compares the financial flows estimated to result from the rehabilitation with the flows estimated to occur in the absence of rehabilitation, and conducts a cost-benefit analysis on the difference, is both orthodox and correct. Where the PPMB procedure was unorthodox was in its choice of the "without rehabilitation" option. Since closure was considered politically unacceptable, the "without" option hypothesized was a situation of carrying on with the minimal renovation needed to keep the factories going. The assumption of continuous losses associated with the "without" option has the effect of pushing up the estimated financial internal rate of return (FIRR) resulting from the rehabilitation. It is not argued that the assumptions made and the methodology adopted were wrong — indeed they were probably sensible in the circumstances, but this choice of assumption and methodology did greatly increase the attractiveness of the rehabilitation option to the Tanzanian government.

The criteria which govern a new investor’s appraisal of a rehabilitation project are necessarily different. For the new investor, past expenditure can be regarded as a sunk cost. The "without" option is simply the use of the money on a different project. The necessary condition for a new investment is the prospects of a reasonable valuation for the two run-down estates and factories that the TTA would be contributing to pay for its share of the equity. Precise valuations in such circumstances are always impossible. The existing owner will stress the size of past investments or the cost of replacing the assets; the new subscriber will point out that the present value of the net income that the assets are capable of producing in their current state is negative. In practice therefore a negotiated agreement has to be reached. If the new equity
investor is the provider of most of the new loan financing and is also to take over the management of the rehabilitation as CDC intended to do at EUTCo, then such an investor is likely to want to own over 50% of the new company both to safeguard its loans and to ensure that the Board and the management work in close harmony. The agreement reached between TTA and CDC, endorsed by the Government of Tanzania, was that EUTCo’s shareholding would be CDC 60%, TTA 40%.

There were a number of things that facilitated agreement on this financial structure. There was no alternative candidate of comparable reputation willing to both finance and manage the rehabilitation. CDC was well known in Tanzania and was already involved in the tea industry in Kenya, in Malawi, and in Zimbabwe. The chairman of the TTA at the time was Mr. Hatim Karimjee, an experienced businessman whose family company itself owned a tea estate in the East Usambaras. He was therefore able to take a realistic view of both the problems and the possibilities. CDC, as a state-owned corporation not required to distribute dividends, was able to adopt a very patient attitude toward the prospect of what was likely to be a fairly long delay in the receipt of any dividends from EUTCo, and to accept greater risk than any commercial firm would have accepted. Similarly TTA, as a state-owned corporation, was more concerned about getting the rehabilitations accomplished quickly so as to increase net foreign exchange receipts for the government than in what its precise share of some distant future dividend might be. Finally, on the understanding that the loan financing would be new foreign money brought in from abroad, CDC was allowed to use “blocked funds” held at the Bank of Tanzania for the purchase of its equity in EUTCo.

5. INVESTING IN REHABILITATION

In March 1986 a CDC appraisal mission had visited Tanzania to formulate a proposal. It proposed that a joint venture company be formed by CDC and TTA which would then operate Kwamkoro and Bulwa as a single unit. As described in the previous section, CDC would make an equity investment in local currency sufficient to enable it to become the majority shareholder with TTA’s share of the equity being paid for by the transfer to the joint venture of the two estates. CDC would also take on the management of the JVC, to be called the East Usambarra Tea Company (EUTCo), and would provide a foreign currency loan.

Excluding the value of the existing assets which TTA would inject into EUTCo, CDC at that time estimated the incremental funding requirement to be £5.9m. (reached in Project Year Five) which was to be met by a CDC equity subscription of TShs 90m. (equivalent to £1.5m.), a sterling loan from CDC of £2.7m., and self-generated funds of £1.7m. The project’s financial rate of return at constant prices was estimated at above 11%, with an economic rate of return that was substantially higher because of the project’s capacity to generate employment, to earn foreign exchange and to make use of underutilized assets.

EUTCo was duly incorporated in February 1988 and CDC assumed management responsibility in the following month. A start was made on most physical aspects of the rehabilitation program. It proved difficult, however, despite the introduction of a number of incentive schemes, to attain the required rate of recruitment of tea-plucking labor needed to bring the estates back into full production. By mid-1989 this lack of labor led to a slower than expected build-up in production and cash generation, which was aggravated by a decline in world tea prices to well below those projected at the time of project appraisal.

The solution proposed in the latter part of 1989 to this labor shortage was an unusual one, although it was one that had been successfully adopted in Zimbabwe. It was proposed to build a four-stream secondary college on the Kwamkoro estate that would provide free education to 16-20-year olds provided the students spent a certain number of hours per week plucking tea, for which EUTCo would pay at standard rates.

The college would follow the curriculum laid down by the Ministry of Education for private secondary establishments with specialization in agriculture. A school manager, a headmaster and 22 Tanzanian teachers would be employed for a student establishment that was planned to grow to 640. The school was called a College as the idea was more akin to a Youth Opportunity Program, given that the students were 15 years plus and the company did not want to give the impression it was employing child labor. The concept was not entirely new to Tanzania since there were already four state agricultural secondary establishments where students divided their time between study and food crop cultivation. The new dimension proposed by EUTCo involved the application of this concept to a cash crop and the payment of the students.

The cost of the school plus other additional works not previously budgeted for to complete the rehabilitation were estimated at £2.6m., to be financed by a supplementary sterling loan of £1.1m. and the provision in local currency (from CDC’s blocked account) of the TShs equivalent of £1.6m. It was estimated that the financial rate of return would still exceed the cost of funds because of an expected uplift in yield of some 30%.

Many of the original assumptions made at the time of the decision to build the College have subsequently been proved correct. Production per hectare, labor productivity and quality of leaf plucked have all turned out to be far higher than in the estate fields. As the College grows and more fields are plucked by the students, labor will be released from the estate fields to become outgrowers.
The college initiative was not the last attempt by EUTCo to solve its labor problem. Despite this and other initiatives, recruitment of labor remained too low for the full program of work. This resulted in the postponement of the renovation of the factories which in turn perpetuated the tea market's apprehension about the quality of EUTCo's tea. The resulting vicious circle was eventually broken, under a new general manager, by the decision to commence investment in the factories and simultaneously to introduce much improved terms and conditions of service. Such terms included not only higher rates of pay but also such facilities as access to land for growing maize, the opening of well-supplied shops, the construction of quarters for seasonal labor, the equipment of local medical centers and schools. These measures did succeed in bringing labor back to the estates, so much so that it became possible to accelerate the rehabilitation of the fields which was completed in October 1992, a year ahead of the revised schedule.

In the short term this acceleration of the program was financed by running up arrears of interest on CDC's earlier loans to EUTCo. But it was company policy to clear these arrears out of cash flows by the end of 1993. That in turn meant that the same self-generated funds were not available to finance the increase in working capital requirements and the expansion of factory capacity. These were therefore financed by CDC providing a further £500,000 to EUTCo in sterling denominated income notes (a form of quasi-equity), thus bringing CDC's total investment in the project up to some £7.7 million.

6. THE PROGRAM OF WORK

It was anticipated that the field estates would take five years to reach planned production levels and that the rehabilitation of the factories and workers' housing would be completed within four years. The planned build-up of made tea production is shown in Table 2; the program of work on the factories and housing appears as Figure 2. The remainder of this section describes in summary form the program of work that the rehabilitation was thought to require.

In essence the rehabilitation of a tea estate is not a complicated matter. A tea bush will live and go on yielding leaves for 100 years. If left untended and unplucked it will simply continue growing until it eventually becomes a sizeable tree. Rehabilitation involves severely pruning it back to 16 inches from the ground, and then encouraging the reestablishment of a flat table of leaves, wide-spread and parallel to the slope of the ground at a convenient plucking height, which is normally regarded as 22 inches. With appropriate fertilizing and weed control, both the yield of the bush and the quality of its leaf can be restored in three or four years.

Of the 1,349 ha of established tea on both estates, 538 ha had been abandoned and a further 256 ha was only being partially plucked. The abandoned tea areas needed to be pruned, and then cut across. Fertilizing, weeding, and the application of herbicides needed to be resumed. Infilling needed to be done and a nursery established. Standards of work in the field, particularly of tipping and plucking, needed to be improved.

To accomplish all this and the renovation of the factories, effective management with the authority and the means to bring about radical change was needed. The first priority was to recruit and train employees who by the time peak production was reached would number 2,530. The EUTCo general manager reasons, given that wages are near subsistence level, the social support services should arguably be regarded as an integral part of the wage package. Free medical care, creche facilities, educational support and company shops take on greater significance.

In the first four years of rehabilitation physical turnover in the shops increased eightfold. As to the renovation of the two factories and of the other estate infrastructure, a detailed program of the work that was undertaken is shown in Figure 2.

EUTCo asserts that the conservation of the natural forest, apart from its ecological importance, is essential for the sustainability of tea production. Fuelwood is of concern because, apart from the requirements of EUTCo's factories, it is the standard cooking fuel for village households. Measures therefore had to be worked out to limit the extent to which plantation workers and villagers raid the neighboring indigenous

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<td>Planned production (tons)</td>
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<td>Kwamkoro group</td>
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<td>Total planned</td>
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<td>Achieved production (tons)</td>
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forests for fuelwood. This is a delicate issue because prior to the arrival of the professional conservationists local villagers had regarded the gathering of fuelwood from the neighboring forest as their natural right.

Assuming that harvesting of eucalyptus for fuel can be carried out on an eight-year cycle, it was calculated that drying a peak crop of 2,450 tons of tea would require a planted fuelwood area of about 500 ha. At the commencement of rehabilitation, existing fuelwood plantations covered only 90 ha, but by the end of 1992 this had been increased to 526 ha including 52 ha planted by outgrowers. While these new plantations are maturing, fuelwood will be purchased from a neighboring plantation.

Additionally a scheme to harvest *Maesopsis* from the natural forest has been launched. *Maesopsis* is an introduced, very fast colonizing species disapproved of by conservationists. Its extraction followed by an enrichment program with indigenous species has the full support of the Department of Forestry.

### 7. MACROECONOMIC FRAMEWORK AND MANAGEMENT ISSUES

The rehabilitation of the two estates was completed almost exactly 10 years after the first of the PPMB "feasibility studies" had been conducted. Management of the estate interviewed in 1993 recognized the appropriateness of measures recommended in the two studies but, by implication, considered the diagnosis of the causes of earlier failure to be incomplete. Three types of causes emerged as being inadequately specified in the original studies. These were: causes to do with the general policies and practices of the government of the time; causes to do with the identity, style, and competence of management; and causes to do with labor relations. These three causes interact, but since new policies and practices in all three areas have been essential ingredients of the rehabilitation, they will be considered separately.

(a) General economic policies

In their comprehensive study of Tanzania's international trade policy, Ndulu and Lipumba (1991) assert "The poor export performance is largely the result of misconceived domestic policies." In particular they found that over 1960–85 real export earnings showed a negative trend growth of 3.35 percent annually; 91.4 percent of this negative growth is explained by a decline in the volume of exports.
Those include excessive taxation of the export sector, effect of limiting supply, including the supply of labor. of macroeconomic policy impeding exports, Ndulu be possible to add other sources of distortion such as reliance on administrative mechanisms for the distribution of foreign exchange, persistent government deficits which helped to fuel inflation, and unrealistic centrally administered price controls which had the effect of limiting supply, including the supply of labor.

Although the overvalued exchange rate, at least from 1980 onward, may have been the main example of macroeconomic policy impeding exports, Ndulu and Lipumba also cite other policies and measures. Those include excessive taxation of the export sector, the more favorable real prices achievable from cultivating food crops, and protection given to the nonexport sector which had the effect of raising the price of inputs the export sector had to buy. To these it would be possible to add other sources of distortion such as reliance on administrative mechanisms for the distribution of foreign exchange, persistent government deficits which helped to fuel inflation, and unrealistic centrally administered price controls which had the effect of limiting supply, including the supply of labor.

To the extent that the requirements of the Structural Adjustment Programme have led to many of these distortions being corrected, the existence of the program has been an important element in the recovery of the estates. 18

(b) Management practices

For 14 years after its nationalization, Kwamkoro was managed by the Sisal Corporation. During this period, production declined more rapidly than it did at other Tanzanian tea plantations and prices realized for Kwamkoro tea also fell markedly both in relation to the general level of prices at the London auctions and in relation to the average prices realized by other Tanzanian teas. A contributory cause may well have been the collapse of sisal prices which, exacerbated by the overvalued exchange rate, left the Sisal Corporation extremely short of funds and led it in the earlier years to use Kwamkoro revenues to cross-subsidize its sisal estates. In 1987, when management was finally transferred from the Sisal Corporation to the Tanzanian Tea Authority (TTA), production did immediately respond, increasing from its nadir of 88 tons to 198 tons. Leaving the estate for so long in the charge of the Sisal Corporation must itself rank as an example of mismanagement.

The TTA itself was not immune from some of the inefficiencies which critics believe to be characteristic of many parastatal organizations. The comments which follow are quotations from persons who have had experience of working with the TTA. The TTA’s own expertise and interest was described as “primarily in the development and processing of smallholder production.” Its management style was described as “excessively bureaucratic — those in charge seldom visit the estate but grant no local authority to local managers even to stock up on spare parts or to create incentives for workers”; “the estates were allowed no say in policy decisions and were not supplied with data (e.g., on realized prices) to enable local managers to monitor their own performance”; “The TTA made poor choices in the ordering of equipment, and had no incentive to bargain or ask for discounts in order to stretch the budget”; “Nowadays we undertake training on how to operate new machines before they arrive — that never happened with the TTA”; “The TTA often supplied the estate with only a part of the fertilizers and herbicides that were needed, provided local managers with very poor remuneration and often delayed transfers of funds so that management could not meet all its financial obligations.”

(c) Labor relations

Given that wages and payments to pluckers often lagged behind the rate of inflation, that management itself had no power to set rates or to offer special incentives, and that workers sometimes had to wait for two or three months to receive their pay, it is hardly surprising that relations between management and the trade unions were poor. The chairman of the local branch of the Organization of Tanzanian Trade Unions (OTTU), because of his political connections, had sufficient authority to countermand management instructions.

8. NEW ISSUES

By the end of 1993 the physical rehabilitation at EUTCo could be said to have been successfully completed. Further work in the fields, in the factories, on infrastructure or training constitute improvements, not rehabilitation. But the cost of achieving this has been substantially greater than was initially estimated, as shown in Table 3. As a result successful financial rehabilitation cannot be said to have been accomplished yet. “Successful financial rehabilitation” in this context can be defined as attainment of a situation where all loans connected with the rehabilitation project are being fully serviced and where the new equity funds invested are receiving a dividend consistent with the risk involved, say 20% in sterling terms.

With hindsight it could be argued that management made one or two misjudgments in the design and implementation of the rehabilitation program.
One misjudgment, expressed in the initial CDC project appraisal, was that "as this is a rehabilitation project an extensive project management team is not foreseen." Initially it was intended that only three expatriates would be provided under a technical management agreement. This was later expanded to five, and then to 13, before contracting again to five. Subsequently new elements such as the management agreement for the KAL estate and the encouragement of smallholder and tenant production have increased the demands upon management.

CDC underestimated the difficulty of attracting labor back to work on the estates. As Mr. Hemedi Sufiani, EUTCo personnel manager confessed: "After 20 years of state ownership, when staff were not paid regularly, people in the area did not believe the new management would be any different."²²

It is also taking longer than expected to train the pluckers, and to achieve an acceptable level of labor productivity.²³ The renewed application of fertilizer did not increase yields as quickly as was anticipated, leading to a shortfall in the early years in the planned

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**Figure 3. Annual average prices of all tea sold at London auctions.**

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delivery of leaf to the factories — which itself was not helped by the prolonged drought of 1990–91. Again in retrospect, it might have been better to have proceeded earlier with the rehabilitation of the factories — antiquated equipment and poor ventilation impeded the attempt to improve the quality of made tea. In addition, a general decline in world tea prices to a level barely half of that forecast by the World Bank exacerbated this problem. (See Figure 3 for a graph of the annual average prices of tea sold at London auctions.)

These factors, taken together, depressed revenue receipts and therefore increased the additional financing that had to be raised. EUTCo was faced with a problem that is common when an enterprise is dependent upon loans denominated in a currency which has appreciated strongly in relation to the currency of its own balance sheet. The Tanzanian shilling stood at about TShs 700 to the pound. How was EUTCo to deal with the gigantic unrealized losses standing in the balance sheet? Financial prudence might suggest that they should be converted in part into equity to restore the company’s gearing, but that would have the effect of upsetting the balance of ownership between the shareholders, since it was recognized that the TTA might have difficulty in raising funds to subscribe for additional equity.24

The social and environmental impact of the EUTCo rehabilitation has assumed increasing importance. An external evaluation confirmed that the overall social impact had been positive for the local communities, especially in creating additional employment opportunities for women.25 The tenant scheme and the eucalyptus outgrower scheme were both found to be popular with local farmers, and the study recommended that EUTCo should encourage tea cultivation by smallholders, but only on a part of their land.

The same evaluation confirmed that access to firewood had become a serious problem.26

9. LESSONS

Addressing a seminar in Arusha, Tanzania in August 1993, the General Manager of EUTCo, Mr. Simon Hill, spoke of some of the “lessons to be learnt” from the experience of rehabilitating Kwamkoro and Bulwa. Among the points he made were the following:

CDC underestimated the difficulty of carrying out the development work, whilst at the same time running an operational company. The initial thought was that given the infrastructure already in place, production could be built up quickly to generate the cash to turn the company around. In fact, it was soon realized that much of the infrastructure was either inappropriate or defective. For example, given that it was no longer acceptable to build houses without sanitation along the edge of rivers, it proved less expensive to demolish certain settlements and to rebuild elsewhere than to try and meet pollution standards by installing septic tanks below the water table. Telecommunications too were inadequate. To talk to his tea brokers, the general manager would need to take a two hour drive to Tanga and then would take another two hours to get back again. The banking services provided by the government-owned National Bank of Commerce (which at that time enjoyed a monopoly in commercial banking) were very poor.

A great deal of time and effort had to be put into building bridges of trust between the management of EUTCo and the Bank of Tanzania.27

It is not so much the attitude of senior managers in government that has served as an obstacle to the emergence of a business infrastructure, but rather those who deal with the paperwork. That paperwork has evolved around a basic premise of mistrust. Approval is needed even for the smallest step, and a clerical officer’s job in the past has been to stop rather than say Yes.

A third process of mutual learning has involved the relationship between the new management and Tanzanian workers. Remuneration and promotion were made to depend much more directly upon performance and results, which constituted a major change for staff who had joined EUTCo from the parastatals. But given the required level of achievement, levels of remuneration were substantially higher than previously, and considerably better than in state employment.

The story of each successful rehabilitation will differ in its detail. Yet there are sufficient common features to enable us to draw some lessons from each.

The lessons that emerge from EUTCo’s experience are these:

— If we allow ourselves the distinction between the hard physical items needed for rehabilitation (buildings, machinery, equipment, road improvements, vehicles, fertilizers and herbicides) and the soft items (management systems, dealing with government, training requirements, labor relations, environmental concerns, social provisions)... it is the costing of these latter “soft” items and their effects upon recovery that are the most difficult to judge accurately. Yet comparatively little attention is paid to these issues in most project appraisals. When they are considered, they tend to be the areas where the greatest optimism is shown, which then turns out to be unwarranted.

— However thorough the work done in preparing feasibility studies and investment plans, factors will arise that were not anticipated, and variables will prove to have widely different values from those estimated. This is particularly true of rehabilitation as compared with greenfield projects.28

At EUTCo estimates in the original project appraisals of the future price of tea, of the extent of Tanzanian inflation and devaluation, of the rate of
labor recruitment, of the speed of recovery of production, of the demands upon senior management and of the eventual funding requirement all turned out to be wide of the mark. But then so did estimates of the extent of recovery that could be achieved, of the scope for improving the quality of leaf, of the benefits of improved marketing, and of the possibility of extending management to neighboring properties. The lesson is “Be prepared for breaks that go in your favor, as well as those that go against you.”

— Successful physical rehabilitation (i.e. recovery of production) and success in reviving the local economy do not necessarily ensure that the new investment has been financially worthwhile. To date, CDC’s investment in EUTFco would have earned more sitting on deposit in a bank. Financial success may be achieved eventually, but it is still dependent upon steady prices in the international tea market, a sustained program of domestic policy reform and a liberalization of Tanzania’s domestic tea market.

— The introduction of a structural adjustment program involving the move to a realistic exchange rate, some privatization and the loosening of controls has been essential to the success of the rehabilitation. The large devaluation of the Tanzanian shilling, however, meant that the purchasing power of the initial TShs equity subscription was reduced from the start. That left a financing gap of about £1.5m. that had to be bridged with sterling loans. So, while structural adjustment may be necessary, it can also introduce inconvenient complications.

— It can be difficult for the owners of a run-down asset to accept that neither the money that has been put into it, nor the replacement cost, is a relevant measure of its value. For the purpose of procuring a new investment in its rehabilitation, the relevant value of the asset is a residual — being equal to the present value of what is left of the net cash flow after the new capital introduced has been serviced at a rate of return commensurate with the new investor’s perception of his risk. If this residual net cash flow turns out to be negative, the new investor will have to be paid to take over the project.

— The presence of an experienced businessman advising the government proved invaluable in determining a realistic and reasonable price for the assets that were taken over by the new joint venture company.

— It is easy to underestimate the importance for commercial success of an underlying business infrastructure, which needs to include not only a telephone service, a reliable electricity supply and dependable banking facilities but also such intangibles as a usable system of modern commercial law, probity in the courts, and civil servants who are alert to the needs of business.

— It is also easy to underestimate the importance of understanding the market. Both the PPMB and the CDC initial market assessments were poor. Experience has proved how much a correct strategy plus niche-marketing can improve realized prices.

— When political systems and state policies are changing rapidly, there are likely to be delays between the giving of government commitments and their translation into action by officials — whether that be in the lodging of a lease, the implementation of policy reform, or simply the surrender of the power to impede. Some of these will be expensive for the project (and ultimately for the revenue of government itself) in ways which many government officials find difficult to comprehend.

— The continuous and close involvement of the new investor in management throughout the whole period of the rehabilitation, and thus the ability to modify plans so that a new approach could be applied when an earlier one had failed, turned out to be an essential ingredient.

— Also of great value was the continuous and active involvement of the two TTA-appointed Tanzanian directors on the EUTFco board, each of them knowledgeable about tea and prominent enough to be influential with the Tanzanian authorities.

— New management systems, regular reporting, computerization, prompt production of accounts and quick distribution of precise information have proved very important to managers in improving performance and job satisfaction.

— Among the workforce at all levels, the inculcation of new attitudes and habits proved as important as formal and technical training, but is more difficult to achieve.

— If the eventual cost of the rehabilitation (much of it in foreign exchange) amounts to several times the value ascribed to the run-down assets, then the foreign investor is likely to remain the majority shareholder until he is bought out or until a domestic capital market is developed upon which shares can be floated.

— The original CDC project appraisal estimated that a surplus would be available for the payment of dividends in Project Year Three. In the event, dividends are likely to be so long delayed that it is doubtful if an acceptable IRR on equity subscriptions will be achieved unless the company is revalued or until the shares are sold for a capital gain. (Even then, a substantial gain in Tanzanian shillings could still constitute a sterling loss.)

— In practice, if a company with heavy foreign loan obligations keeps its accounts in the currency of a country where inflation is high and the exchange rate persistently deteriorates, neither the profit and loss account nor the balance sheet are likely to offer a clear picture of the state of the company. But tax
considerations and the applicable foreign exchange regime may well deter the company from taking corrective action to clarify its accounts.

— A country's economic recovery requires a combination of policy reform and multiple project rehabilitation. Without a program of reforms, the rehabilitations will not succeed; without the rehabilitations, the country will lack the foreign exchange to sustain the program.

— Even success will bring new difficulties. In this case study, the increase of employment brought about by the estate's rehabilitation has attracted the hostility of the environmentalists who view the migration to the region as a threat to the conservation of the traditional forest.

— Perhaps the most important lesson of all is that continuity of commitment, a deep pocket and plenty of patience are likely to be required of those undertaking rehabilitation projects. Great rewards may ultimately be gained but they have to be struggled for, often for longer than originally anticipated.

NOTES

1. Production of made tea (MT) which fell to 319 tons in 1986 will be 2,900 tons in 1993 and is expected to reach 3,200 tons in 1994.

2. Contemporary evidence suggests that little thought had been given in advance of the Arusha Declaration as to how the firms to be nationalized were to be paid for or managed. In effect most firms lent the government the money with which to compensate them, the government trusting that the subsequent dividend stream would be sufficient to service the loans. Lonrho's tea estates were nationalized as a punishment for what President Nyerere regarded as the perverse meddling of Mr. "Tiny" Rowland in the internal politics of Rhodesia.

3. R. H. Green suggests that most nationalizations were done to preserve foreign exchange earnings, jobs, and the local economies of Tanga and Kilosa. See also Helleiner (1967).

4. The Tanzania Tea Authority was established by Act of Parliament in 1968. The TTA was not itself mainly involved in growing tea but in assisting the development of smallholder tea growers and in providing processing facilities.

5. Private communication from David Potts of the Development and Project Planning Centre of the University of Bradford.

6. There was a history of conflict between political appointees at TSA and the technical staff of the Ministry, many of whom believed that earnings from Kwamkoro were being diverted to finance expenditure on the TSA's headquarters.

7. The reports assume that despite successive devaluations in 1982, 1983 and 1984, the Tanzanian shilling was likely to remain significantly overvalued.

8. The Commonwealth Development Corporation is a statutory corporation entirely owned by the British Government which invests in productive enterprises in 50 developing countries. It also has the capacity to initiate new projects and provide management.

9. For a full discussion of the appropriate methodology for appraising rehabilitation projects, see Yaffey and Tribe (1992).

10. The economic IRR was affected by the assumption that the Tanzanian shilling was likely to remain overvalued (in terms of its market-clearing price) so that forex earnings and expenditures were accorded alternative shadow prices in PPMB calculations of 1.5 and 2.0.

11. For a justification of the methodology involved in using two shadow exchange rates, see Potts (1990).

12. EUTCo pays the school the same rate for plucked tea as tenant farmers receive. After deductions for meals and certain other charges the students themselves receive almost the same as adult pluckers. They were originally expected to pluck three hours each weekday in term time and to spend three hours on Saturday tidying the school. The school's ownership and management have now been placed with a self-governing trust, whose chairman is a former Minister of Agriculture.

13. Only Phase One has so far been built but further funding is being sought from aid donors to complete the building program.

14. Information on the appraisal and on the outgrower prospect was supplied by EUTCo's general manager.

15. The minimum wage paid on the estate was doubled in nominal terms between July 1990 and July 1992 and increased by another 31% by July 1993. In real terms this represented an increase of some 40-45%. Because of the rapidity with which the TSh was devalued, however, estate and factory labor costs were actually lower in pound sterling.

16. Since the original target of 2,450 tons of made tea had been exceeded by 1993, the original 500 ha estimate for planted fuelwood will prove insufficient. In the longer term, further fuelwood will be required to process tea grown on the land of adjacent small holders under a scheme to plant 250 hectares in conjunction with the TTA.

17. "The assumptions made were realistic...the completed rehabilitation, and its main ingredients, is very similar to that envisaged," comments the present EUTCo general manager (1993).

18. R. Green comments: "Since it is not disputed that the terms of trade have declined 50 percent since 1960 nor that
the volume has declined at least 20 percent, it seems arguable that both factors are significant.”

19. Tanzania embarked upon its own economic recovery program (ERP) supported by World Bank finance in 1986.

20. The comments quoted were gathered from interviews in August 1992 and August 1993.

21. David Potts comments: “The rules of the Standing Committee on Parastatal Organisations (SCOPO) made it very difficult to introduce such schemes.”


23. Average plucking yields are still quite low by international standards but production conditions are not always comparable. A 30% annual turnover among adult pluckers also reduces productivity.

24. In 1993 this problem was solved by an agreement to waive the 2% cess payable to TTA for two years as a means of maintaining the TTA’s 40% share of EUTCo’s enlarged equity.


26. “Although nobody will admit it openly, illegal cutting of wood from protected forests is fairly widespread. Women usually go out to collect fuelwood at dusk and return in the dark...If they are caught then they stand the risk of being sent to prison and/or having their axes confiscated” (Deshingkar, 1993, p. 22).

27. Bank of Tanzania approvals were required both for the use of foreign exchange and the export of teas. These represented a continuing commercial risk to EUTCo, (a) because the requirement frequently prevented managements from acting in a timely manner, (b) because a much higher level of working capital was required to allow for delays in approvals for the purchase of recurrent material and spares, and (c) because management was frequently unable to capitalize on the advantage of EUTCo’s proximity to the Mombasa market in supplying teas quickly.

28. One manager commented: “If you are not prepared, once you start, to carry on regardless until the rehabilitation is completed, then you had better not start at all. Shilly-shallying half way through just adds to costs.”

REFERENCES


