The political economy of the investment climate in Tanzania

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Although Tanzania suffers from an imperfect form of liberal democracy and high levels of corruption, it has attracted unprecedented levels of foreign investment over the past fifteen years, and is predicted by the IMF to be one of the fastest growing countries in the world over the next decade. This provides some grounds for thinking that Tanzania represents a case of ‘developmental patrimonialism’, a type of regime that achieves development without conforming to ‘good governance’ orthodoxy.

This Research Report rejects that idea. Drawing links between the management of economic rents and the climate for business and investment, it shows that rent-management in Tanzania remains largely decentralized and undisciplined, with deleterious consequences for investors. In previously fast-growing sectors like mining, investors are increasingly circumspect, while high potential areas like horticulture appear largely ignored. The result is that recent increases in economic growth – which have yet to have a discernible impact on poverty reduction – are likely to be ephemeral. Tanzania, we conclude, is a case of ‘non-developmental patrimonialism’, and its regime is likely to face a mounting legitimacy crisis in coming years.

The report is structured as follows. The Introduction discusses the link between rent-management and economic performance in comparative perspective, as well as introducing other important concepts, including ‘relationship-based governance’ and ‘developmental patrimonialism’; Section Two looks at the structure of rent-management across Tanzania’s post-colonial history; Section Three examines the impact of rent-management on public goods production and the investment climate in Tanzania over the past decade; Section Four analyses the political economy of the investment climate in export horticulture, while Section Five does the same for gold mining. In the Conclusion we discuss the contribution of institutions, political culture, and external relations to Tanzania’s non-developmental equilibrium, before commenting on some possible avenues of change.

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1 Introduction

This study of the political economy of the investment climate in mainland Tanzania is part of a larger research project into business and politics in Africa, conducted by the Africa Power and Politics Programme. APPP is dedicated to finding ways of boosting poverty-reducing economic investment and growth in Africa by working with, rather than against, prevailing political-economic realities. Most African political-economies, it is well-known, are characterised by rather high levels of clientelism, corruption, and rent-seeking - a constitutive feature of systems frequently called ‘patrimonial’ or ‘neo-patrimonial’ in the development literature. Working with African realities consequently implies harnessing neo-patrimonialism for developmental ends.

The APPP’s approach, which involves finding development solutions that are ‘anchored in local realities’ or that ‘go with the grain’ of African history and society, marks a significant departure from contemporary development orthodoxy, which remains focused on transforming African political-economic realities by importing ‘Good Governance’ modalities. As such, we join a growing number of counter-orthodox voices that have begun to question whether good governance arrangements are the best or only route to progress in developing countries (Chang, 2003; Grindle, 2004; Khan, 2006; Rodrik, 2007; Moore and Schmitz, 2008; Levy, 2010).

Much of the counter-orthodox evidence comes from Asia, where cronyism, corruption and rent-seeking appear to have been compatible in some cases with very rapid, poverty-reducing growth. New evidence from South Korea, for example, shows that some of its most successful economic periods coincided with massive money politics and rent-seeking (Kang, 2002). Another example is Indonesia, which between 1967 and 1984 lifted some 50 million people out of poverty, in spite of having a quintessentially neo-patrimonial state (Crouch, 1979; Robison, 1992; Henley, 2010). A similar case can be made for Malaysia: between 1970 and the late 1980s, Malaysian regimes leveraged the blurred boundaries between private capital, party businesses and the state to placate political opposition, attract foreign investment, and incubate an indigenous business class (Koon, 1992; Ling, 1992; Mackie, 1992; Searle, 1999). China and Vietnam are further examples of countries that have seen exponential growth even in the absence of transparent government or clearly defined property rights (Moore and Schmitz, 2008); the emphasis on investment promotion has been relationship-, not rule-based (Abdel-Latif and Schmitz, 2009). ‘Good’ governance, it seems, is not essential for economic progress in the developing world; governance need only be ‘good enough’ (Grindle, 2004), and a variety of institutional forms can satisfy investors’ functional needs (Rodrik, 2007).

A much smaller body of evidence comes from Africa. For example, in an important 1995 article Allen (1995) rejected the idea that all African countries had been equally dysfunctional, arguing that the more stable and successful economies had endured by introducing forms of ‘centralised bureaucracy’. Sandbrook (1985) recognized that rulers of exceptional skill, like Ivory Coast’s Houphouët-Boigny, had been able to prevent the personalized state’s characteristic downward slide. Crook (1989) went so far as to coin the term ‘developmental patrimonialism’ in that connection. Even Jackson and Rosberg (1982), responsible for some of the more lurid images of neo-patrimonial governance on the continent, recognized that personal rule had brought political stability to large parts of Africa for significant periods of time. A recent study of Angola has highlighted similar issues (Sogge, 2009).

With this background in mind, the Africa Power and Politics Programme conducted research into economic performance in seven ‘middle African’ countries (Kenya, Tanzania, Ghana,
Ivory Coast, Rwanda, Malawi, Uganda), from independence to the present day (Kelsall et al., 2010), aiming to re-assess the role of neo-patrimonialism in economic performance. All the countries were tropical, resource poor, of middling population, and shared a political culture that valorized ‘big man’ rule, making them, we believe, a reasonable basis for comparison. They also have the virtue of having generated a considerable secondary literature – essential for the desk-based aspects of our study. We conducted fieldwork in three of these countries (Tanzania, Malawi, Rwanda), drilling deeper into the nature of the investment climate there. Our initial findings led us to commission further studies in Ethiopia and Zimbabwe.

Tanzania was chosen for fieldwork because in recent years it has had a good record of attracting foreign investment, especially in the mining and tourism sectors. This gave us reason to believe that although in many respects a neo-patrimonial state, Tanzania had somehow succeeded in creating a good investment climate. Our study, which looked at both national and sectoral levels, was designed to reveal how. In fact, closer examination of the Tanzanian case has suggested that the gains it has made in mining and tourism cannot be expected to be replicated throughout the economy, and are likely to be short-lived. For reasons we shall discuss, political-economic realities in Tanzania create unfortunate constraints on investment, meaning that it is not a good model for other countries. As subsequent sections explain, we believe that this is largely because the management of economic rents is decentralized (or at best only loosely centralized), and oriented to the short term.

1.1 Conceptual bearings

The analysis we provide is focused on the relationship between the management of economic rents and provision of public goods conducive to a good investment and business climate. Sub-sections provide an overview of these conceptual terms, before outlining the findings of APPP’s seven-country study.

Economic rents

‘Economic rent’ is a term used to describe returns to a factor of production over and above what is required to retain that factor in current use. To provide an example, a professional footballer may be paid GBP 100,000 a week for services rendered when he would be prepared to provide those services for GBP 500 a week (GBP 500 being the next best remuneration available to him in an alternative line of work), thus his economic rent is GBP 99,500 a week. In a perfectly competitive market there would be an influx of equally talented people supplying their services as professional footballers, up until the point at which supply equalled demand, whereupon economic rent would be eliminated. However, the market for professional footballers, and many other goods for that matter, is not perfectly competitive, meaning there are often opportunities to earn rents. Neo-classical economists tend to regard economic rents as inefficient, and a value-loss to society. However, as we shall see in the following paragraphs, the situation is actually more complex than this.

In a seminal discussion of rents and rent-seeking, Khan (2000a) distinguishes between several different types of rent. Some of these are value-reducing, and some value-enhancing, and some can be either depending on context. We will briefly discuss monopoly rents, natural resource rents, rent-like transfers, Schumpeterian rents, rents for learning and rents for monitoring and management, commenting on their efficiency implications as we go.

Monopoly rents are rents that accrue to the producers of goods and services in uncompetitive markets. In a case of artificial monopoly (that is, one created by regulatory barriers to entry,
as opposed to a natural monopoly furnished by economies of scale), the monopolist restricts output at a point where the marginal cost of production is less than its price. Society loses because production is less than it would otherwise be, while a large share of what would normally accrue as a ‘surplus’ to consumers is appropriated by the monopolist as rent.¹ Monopoly rents thus tend to be inefficient, and generally speaking retard growth and development (Khan, 2000b).² In Tanzania, for example, markets for many goods are imperfect and the formal business sector is quite heavily regulated. Entry into the market for sugar, to provide an extreme example, is strictly controlled; this provides opportunities for those granted a sugar license the opportunity to earn monopoly-like rents.

Natural resource rents are rents that accrue to the owners of natural resources like fisheries or forests. Unlike monopoly rents, they tend to be efficient, since their absence would leave producers without an incentive to conserve resources, in what is frequently called by economists a ‘tragedy of the commons scenario’. Thus the efficient utilisation of natural resources implies creating barriers to entry and use, normally in the form of ‘property rights’ of either an individual or communal type (Khan, 2000b). In Tanzania, natural resources comprising mainly agriculture, forests, fisheries, and minerals are the mainstay of the economy, and in years when market demand is buoyant those with either a formal or informal right to exploit those resources, for example coffee farmers or gemstone miners, may earn economic rents.

Transfer-based rents are politically driven transfers of assets or funds with either positive or negative implications for efficiency and development. For example, development may require the creation of new social classes through transfers of natural resource assets, a process Marx described as primitive accumulation. Since this is likely to provoke social turmoil, another set of transfers or patronage payouts may be necessary to maintain political stability. Given developing countries’ weak revenue collecting capacities, these payouts may well have their source in corruption. Note that both sets of transfers have the character of rents since they are more than their recipients could earn in any alternative occupation (Khan, 2000b). In Tanzania transfers come in several different forms. The most important is foreign aid, which in recent years has accounted for about 10% of Tanzania’s GDP and 35-40% of the national budget.³ Another is the transfer of publicly owned assets – in particular land and parastatal companies – into private hands, via either formal privatization programmes or through informal channels. Another type of transfer is subsidies. The most significant go to the parastatal sector, especially utilities. Other transfers take the form of gratuities to MPs, allowances to public officials, election spending, and various forms of corruption.

Schumpeterian rents are rents that accrue to innovation, in that they provide innovators an advantage in the market place. The possibility of earning such rents is a major spur or incentive to innovation, and hence a source of efficiency and economic growth (Khan, 2000b). For this reason most developed countries protect innovators through patents, at least for a limited period. We have not encountered any evidence of Schumpterian rents in Tanzania.

Learning rents are like monopoly rents in that they protect producers from competition, or provide them with subsidies, while they are learning new skills. They provide an incentive to entrepreneurs to learn new techniques or acquire new technologies, and are often essential

¹ Further, the lack of market competition means that the monopolist has the option of not producing at the lowest possible cost.
² With one caveat. The concentration of monopoly rents or surplus in a small number of hands may provide the basis for productive investment elsewhere in the economy, which would not be possible were rents dissipated through society.
³ http://www.tz.undp.org/docs/countryinfo.pdf
to developing countries trying to modernize. However, they can sometimes create problems by shielding producers from having to produce at least possible cost, and can easily acquire the full efficiency losses of monopoly rents. Given the common phenomenon of ‘infant industries’ that never grow up, learning rents should only be permitted when the state or another agency has the capacity to monitor the learners (Khan, 2000b). In Tanzania, we have found no evidence of genuine learning rents.

Finally, monitoring and management rents may accrue to agents (managers, banks, government officials, regulatory bodies) tasked with ensuring that the economy is working at optimal efficiency (Khan, 2000b). If managers and monitors succeed, these rents will be efficiency enhancing, but if they are incompetent or remiss, rents for management may represent net welfare losses. In Tanzania in recent years some management and monitoring rents have been provided to private companies for managing public utilities. A great deal of money is also spent on civil service salaries, which may also be considered a ‘management rent’, so long as civil servants are earning more than they could do in an alternative profession. Whether or not the latter are development enhancing depends on the competence and productivity of those civil servants.

As the above discussion shows, some rents are crucial to providing the resources and incentives for development. Others represent ‘easy money’ or ‘money for nothing’, a deadweight social loss. Consequently distinguishing between the types of rent a society produces and how they are used can be a valuable tool for assessing a country’s development prospects. In addition, because of their lucrative character, the possibility of earning rents generates a great deal of political activity, known in the economics literature as ‘rent-seeking’.

According to Khan, ‘Rent-seeking is the expenditure of resources and efforts in creating, maintaining or transferring rents. These expenditures can be legal, as with most forms of lobbying, queuing, or contributions to political parties. But they can also be illegal, as in the case of bribes, illegal political contributions, expenditures on private mafias, and so on’ (Khan, 2000a: 70). Rent-seeking in most developing countries is organized through patron-client networks, and the way these are organized can have a big influence over whether rent-seeking turns out to be value-enhancing (and thus good for development) or value reducing overall. Evidence from South Korea, Malaysia, and Indonesia, for example, shows that where these patron-client networks were of a top-down nature that permitted rent-seeking to be centralized, the results for development were positive. By contrast, evidence from India and another period of Indonesian history shows that when patron-client networks were bottom up and rent-management decentralized, the developmental results were poor. That is not to say that top-down, centralized rent-seeking is a sufficient condition for successful development, however. Leaders in the countries concerned were also value-maximisers, and the technological path they chose was suited to a top-down management form (Khan, 2000a).

A number of authors have recently added to the rent-seeking lexicon in potentially useful ways. For example, Moore and Schmitz distinguish between looting, rent-scraping, and dividend collecting. Looting occurs when ‘those who control the state basically rob as much money as they can and hide abroad the cash that they don’t need to keep themselves in power. This is seriously bad news for investors’. Rent-scraping involves creating rules and institutions that allow those in power to skim rents from the private sector. For Moore and Schmitz, ‘this is bad news for potential investors, but not necessarily disastrous. Investors can get by, and those with the right connections do rather well’. Dividend collecting, meanwhile, happens when, ‘those who control the state establish institutional arrangements that permit them personally to benefit, on a continuous basis, from the profit of private enterprise. They
may ask for regular political donations, take ownership stakes in private firms, or go into business themselves, sometimes via companies owned by the ruling party or the military. But the basic point is that they will tend to benefit from the general prosperity of the private sector, and may easily find themselves reinvesting locally. This can be a growth-promoting scenario' (Brautigam et al., 2008: 44).4

The business and investment climate

In our schema, rent-management affects economic performance primarily through the medium of the business and investment climate. Moore and Schmitz define the business climate as ‘policies designed to help reduce business costs’. This includes, ‘The availability, reliability, and cost of public infrastructure … the availability of skilled labour; the implications for businesses of the procedures for registering companies, employing labour, taking legal action, paying taxes, importing and exporting, meeting environmental standards; tax rates; and the typical, predictable level of bribes that a company might have to pay to get its business done and protect itself from political interference’ (Moore and Schmitz, 2008: 19).

They define the investment climate, meanwhile, as ‘policies designed to help reduce the unpredictability that businesses face, above all the degree of uncertainty that investors face about their ability to profit in the future from investment decisions made now’. The kinds of unpredictability that bother investors include such things as large and arbitrary fluctuations in the rate of taxation; the inability to enforce contracts and debt obligations; the unwillingness of the police to take action against large-scale theft of goods; and extreme and arbitrary forms of political interference in hiring and pricing decisions (Moore and Schmitz, 2008: 19).

Government can also help solve problems of collective action, market coordination, and market failure. These problems often represent serious constraints on investment, especially in developing countries. According to Moore and Schmitz government can promote investment by actively supporting large, complex, interrelated investments. They may provide ‘loan guarantees for firms undertaking very risky investments, subsidies for pioneering research, active diplomatic support for nationally based companies trying to break into export markets, or a convincing assurance from the provincial government that a large new airport investment will not be hampered by delays on the part of local governments and publicly-owned utilities in extending highways, electricity and sewerage infrastructure to the new site’. If a government cannot be relied upon to provide these kinds of services, the uncertainty faced by investors is likely to increase (Moore and Schmitz, 2008: 27).

Abdel-Latif and Schmitz argue that governments are most likely to take these kinds of actions when there is a common interest between policy-makers and investors, or what they call CIPI:

CIPI is a relationship based on mutual interest. The investor perceives that the policymaker has a stake in the investment, in the sense that making it happen and succeed would enhance the policy-maker’s reputation, career, or power. In turn, the policy-maker perceives that the investor needs assurance that complementary action by the state (complementary infrastructure, services, loans, or policies) will take place. Both

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4 Moore and Schmitz’s conceptual categories bear some similarity to those identified by Williams et al, who identify the following factors as being inimical to growth: predation, which includes private predation, state predation, and looting (because it undermines property right security); rent-seeking, especially extractive rent-seeking, because it undermines competitive markets; and patronage spending, including subsidies, wage increases, and pork-barrel projects (since it undermines effective investment in public and semi-public goods) (Williams et al., 2009: 12).
sides would lose out if the investment does not occur (Abdel-Latif and Schmitz, 2009: 61).

They find that common social roots facilitate the coming together of public and private actors, while common professional background facilitates a common understanding of the problems. Common interest and understanding of the challenges faced are necessary for an effective public-private growth alliance (Abdel-Latif and Schmitz, 2009: 80).

1.2 Comparative evidence

To date, the application of these kinds of concepts to the problems of investment and growth in sub-Saharan Africa is in its infancy. The APPP’s aforementioned study of economic performance across 23 regimes in seven ‘middle African’ countries (Kelsall et al., 2010) represents a first step.

Four countries (Kenya, Cote d’Ivoire, Malawi, and Rwanda) were found to have enjoyed strong economic performance for periods upwards of a decade, and two others (Uganda and Ghana) were found to have had reasonably strong performance for a slightly shorter period of time.

Two variables seemed to underlie this better economic performance. One was economic policy: the better performers had broadly pro-market, pro-rural biases to their economic policy, and the other was rent-management. The strong performers all had a centralized structure for managing rents and geared rent-management to the long-term (in our schema, rent management is centralized when there is a structure in place that allows a person or group at the apex of the state to determine the major rents that are created and to distribute them at will; it is long-horizon when leaders have a vision that inspires them to create rents and discipline rent-seeking with a view to expanding income over the long term). The findings on rent-management are consistent with those of Khan et al. for Malaysia, Indonesia, and South Korea. They also square with Olson’s theory of roving and stationary bandits, which argues that a leader who successfully monopolizes theft by means of regular taxation has an incentive to take other measures that will allow the economy to grow.5

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5 “With the rational monopolization of theft – in contrast to uncoordinated competitive theft – the victims of the theft can expect to retain whatever capital they accumulate out of after-tax income and therefore also have an incentive to save and to invest, thereby increasing future income and tax receipts. The monopolization of theft and the protection of the tax-generating subjects thereby eliminates anarchy. Since the warlord takes a part of total production in the form of tax theft, it will also pay him to provide other public goods whenever the provision of those goods increases taxable income sufficiently’ (Olson, 1993: 568).
The precise mechanism for centralizing rents varied from place to place, but in all cases it involved a blend of top-down, personal rule with technocratic competence, something rather different from the accountability relations promoted by today's good governance agenda. A top-down neo-patrimonial system permitted presidents or ruling cliques to impose some discipline on the utilization of rents, while a long-time horizon was important to encouraging growth.

A crucial enabling factor for these conditions was appropriate norms governing relations between the political leadership and the economic technocracy. Two dimensions seemed to be important. One was the degree to which the economic technocracy was subject in practice to vertical coordination, such that it received and was responsive to policy directives emanating from the political leadership. The second dimension is what we propose to call technocratic integrity. Where there was technocratic integrity, technocrats were typically willing and able to provide robust, technically informed advice to leading politicians.

Subsequent sections will show that rent-management in Tanzania is neither strongly centralized nor geared to a long time-horizon. Members of the high political leadership are permitted to indulge in non-productive rent-creation and rent-seeking with the tacit, if not direct knowledge of the President (who may or may not profit personally). Some of the proceeds are used to fund election expenses, and some are pocketed privately. In addition, ruling party candidates are permitted to engage in various types of rent-seeking in order to fund their own constituency campaigns. This is coupled with a certain permissiveness toward petty rent-seeking at lower levels of the administration. We believe this scenario is actually quite common in contemporary Africa, and have represented it as the African 'modal pattern' in Figure 2.

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6 We speculate that increased media and civil society scrutiny of corruption encourages this interstitial position. Presidents know they need to raise election funds, but they should also be sufficiently distanced from the process for 'plausible deniability' to obtain. This may have the perverse effect of relaxing the discipline around corruption.
1.3 Research approach

The Tanzanian component of the business and politics stream set out to explore the relationship between rent management and the climate for business and investment. In addition to reviewing the historical evidence for Tanzania, we conducted a field study of the contemporary situation. Knowing that Tanzania had attracted a disproportionate amount of foreign investment in recent years, but also knowing that Tanzania is in important respects still a neo-patrimonial state, we paid particular attention to informal, unorthodox, or unconventional modes of supporting the investment climate. Our hunch was that these would most likely be revealed at sector level, and our research proposal initially envisaged studies in the sugar, tourism, horticulture, and mining sectors. Logistical and personnel problems prevented us from completing the first two studies, although we were able to complete the latter two.

The research was an investigative study which combined academic, government, donor, and media literature, together with semi-structured interviews and informal conversations with a wide range of key respondents in the business, government, and donor sectors. The same techniques were applied to the thorough study of investment-relevant rent management and public goods production at national level.

The paper is structured as follows. Section 2 discusses the history of rent management in Tanzania, providing details from Independence to the present day. We argue that between 1961 and 1967 Tanzania had a reasonably centralized, long-horizon approach to rent-management, and the investment climate was consequently healthy. After 1967 the approach became even more centralized, but economic policy turned against private investment. By the late 1970s, the economy was in deep crisis and the centralized structure for rent management had broken down. There was some modest recentralization from the mid-
1980s, but this has been undermined by countervailing trends. Although the climate for business and investment has improved, it remains below potential.

We flesh out these points in Section 3 which provides more detail on the nature of rents and rent-management in contemporary Tanzania. We argue that a rent-management structure which is at best only loosely centralized, and geared to the short-term, results in serious under-provision of the intermediate public goods that would attract foreign and local investors.

We illustrate this argument in Sections 4 and 5 in studies of the horticulture and gold sectors respectively. Rent management in these sectors remains largely decentralized we argue. Investors suffer from benign neglect at best, and harmful interference at worst, with scant sign of a recognized common interest between policy-makers and investors.

In our Conclusion, Section 6, we review the evidence and ask whether it would be possible to frame a new developmental strategy for Tanzania that better fits the grain of political-economic realities.
2 The political economy of rents and development in Tanzania, 1961-95

In Section 1 we provided an overview of theories surrounding neo-patrimonialism, rent-seeking, the investment climate, and development, as well as an outline of the APPP’s findings from a comparative study of seven ‘middle’ African countries, of which Tanzania was one. We argued that neo-patrimonial regimes were able to create the intermediate public goods conducive to a favourable investment climate when two conditions held: the structure of rent-management was centralized and its orientation was to the long-term – a set of conditions that was crucially dependent on one other enabling factor, the presence of vertically disciplined, technocratic integrity.

In this section we present our Tanzania findings in more detail. The chapter will show that the types of rent, the structure of rent-management, and the degree of technocratic integrity have changed over time. We distinguish between four different periods or rent-management regimes: 1961-67 when Tanzania pursued a relatively orthodox pro-market development strategy, with reasonably centralized, long-horizon, rent management; 1967-78, when the country embarked on a turn to the left, rent-management became more centralized, and the time-horizon remained long; 1978-85 when, in spite of being committed to a long-term development vision, the centre lost control of rent-management; and 1985-1995, when some technocratic integrity was injected into the administration, but decentralizing pressures continued to undermine rent-management.

2.1 The early years, 1961-67

On gaining independence in 1961, Tanzania was a poor agricultural economy, with small mining and commercial sectors, and an expanding state bureaucracy assisted by foreign aid and loans. Its first and second development plans were geared to gradual growth by building on the basic structures of the colonial economy, encouraging agricultural modernization, and stimulating private investment in industry and commerce. The government increasingly developed the political and technocratic mechanisms to centralize rents during this period, although the centre clearly felt more remained to be done. The investment climate was probably better than it has ever been in Tanzania, before or since.

Rents

Agricultural policy in the early years aimed at encouraging agricultural improvement via the ‘focal point’ approach, which concentrated on so-called progressive farmers, and on expanding the role of agricultural marketing cooperatives (Coulson, 1982). In its own words, the Ministry of Agriculture, focused on assisting those ‘with the initiative, the resources and the land to respond to the opportunities of cash crop cultivation’ (Pratt, 1976: 230). As in the colonial period, economic rents from cash crop production were shared between farmers and cooperative societies – which in some cases were becoming multi-functional economic organizations. There were also smaller, more ambitious attempts at agricultural transformation. One was a low budget version associated with President Julius Nyerere’s philosophy of ujamaa African socialism, in which mainly TANU youth leaguers came together to work collectively in villages. Another was an expensive attempt at agricultural modernization using tractors and other modern technologies (Coulson, 1982).

7 TANU (Tanganyika African National Union) was the main nationalist party.
Of the various agricultural strategies pursued, the gradualist approach was markedly the more successful. Most of the transformation schemes failed after a few years (Coulson, 1982); the economic rents transferred to them were thereby wasted. However, even the gradualist approach had its problems – at least in the eyes of President Nyerere – since the bulk of the benefits appeared to be going to the already better-off minority. Many of the latter had leading roles in the cooperative movement, in which there were serious concerns about corruption (Pratt, 1976). A classic study of cooperatives in the Lake Zone, for example, showed how a tractor scheme supposed to profit all farmers was diverted to the benefit of the staff, management, and local political bigwigs (Migon-Adholla, 1975).

Industrial policy was geared to basic import-substitution industrialization. The government protected industry via tariffs (thereby creating rents which were either of a ‘learning’ or ‘monopoly’ character), reassured investors that their assets were safe through the Foreign Investment Protection Act of 1963, and did its best to make land available to them (Coulson, 1982). A key coordinating institution was the National Development Corporation, a holding company headed by George Kahama, which used its capital funds, ‘in ways which would associate with them as much additional private investment as possible, both domestic and foreign’ (Pratt, 1976: 230).

Another source of rents was the government sector, which expanded fairly rapidly during this period. Much of the expansion was funded by foreign aid transfers, although these were less generous than the government had hoped. According to Pratt, the civil service was characterized by ‘personal idealism’ and ‘professional ethics’ and acted ‘as the defender of the public good’ (Pratt, 1976: 223). The same could not always be said for party politicians, however. There were concerns that not all government rents were being steered to productive purposes, but were instead leaking away in petty acts of self-aggrandizement and corruption. Nyerere was deeply disillusioned by the culture of acquisitiveness in the ruling party: ‘The self-seeking, the intrigue, the jockeying for office and income were repugnant to [Nyerere]’ (Pratt, 1976: 110). Nevertheless, improper use of office continued.

Rent-management

The government inherited a bureaucratic machinery with some degree of technocratic competence and experience of planning, and for the first few years of independence top civil service positions tended to remain in the hands of expatriates. A conservative three-year development plan (1961-64) had been largely prepared before independence by expatriate Finance Minister Sir Ernest Vasey, through whom all major proposals had to pass. The subsequent five-year plan was also prepared by an expatriate team in the Ministry of Development Planning (Coulson, 1982).

Supplementing these bureaucratic sinews of power, the government took a number of political measures to help centralize rent-management still further. Tanganyika (as it was then called) entered the Independence era with a Westminster constitution and multi-party elections (in which TANU won all the seats). As mentioned above, Nyerere worried that local party cadres were using the party as a vehicle for personal accumulation, and in 1962 he resigned as Prime Minister and toured the party grassroots in an attempt to instil a socialist spirit. When he returned to government in 1963 it was as President under a republican constitution, armed with a variety of draconian powers. The first major test of these came in the wake of the army mutiny of 1964, after which leading trades unionists and opposition politicians were placed in Preventive Detention, and the union movement brought to heel. In 1963 a commission was appointed to investigate the possibility of moving to a one-party state
and 1965 saw competitive single-party elections. Candidates were limited to discussing the party manifesto, and private campaigning was prohibited (Cliffe, 1967).

By the time Oscar Kambona fled the country in 1967 Nyerere had no serious rivals (Thoden Van Velzen, 1972; Pratt, 1976; Coulson, 1982). He enjoyed broad powers in relation to the summoning and dismissal of ministers and civil servants, the appointment of High Court judges and other judicial officers, the dissolution and summoning of parliament and extensive powers to make subsidiary legislation. From 1964 Cabinet government effectively ceased to operate as Nyerere began to make policy in consultation with a few key ministers and advisors. The National Executive Committee of the party could sometimes persuade him to change his mind on an issue, but it was a constraining body that lacked independent power (McAuslan and Ghai, 1972; Pratt, 1972). Constitutionally, the Annual Conference of the Party was sovereign, but it acted more as a ratifying body for decisions taken elsewhere. MPs lacked personal power bases (Bienen, 1970), a phenomenon reinforced by tight vetting of candidates and election regulations prohibiting use of private funds in campaigns (Barker and Saul, 1974).

Nevertheless, the continued prevalence of petty corruption both in high office and throughout local levels of the party and cooperatives suggests that rent-centralisation was not absolute. In addition, the long-horizon orientation of rent-management, and, more simply, sensible economic policy, was sometimes compromised by a less than ideal technocratic integrity. Although for the first few years of independence top civil service positions tended to remain in the hands of expatriates, Nyerere faced intense pressures to Africanize. As the 1960s wore on, the government became more inclined to reject civil service advice, as was the case in the cooperative movement. In 1963 the power to refuse registration on the grounds of economic non-viability was removed from the Cooperatives Registrar, so that between 1961 and 1966 the number of coops roughly doubled. The result was ‘inefficient, corrupt, and undemocratic cooperatives’ (Coulson, 1982). Local government also proved wasteful and corrupt (Pratt, 1976: 199).

The investment and business climate

The combination of pro-market policies, a reasonably centralized structure for rent-management, and a long time horizon, created quite a propitious climate for business and investment. The country was both politically and economically stable, and producers were provided incentives, some market-based, some government-assisted, to expand production. In the agriculture sector, with the exception of sisal, the country’s main export crops all expanded at a fairly rapid rate, ranging from 8% a year for tea to 13% for cotton, thanks largely to the efforts of petty-capitalist farmers and energetic peasants. Food crops were also in surplus. In the industrial sphere, a mini-industrial investment boom that began around 1955 continued until the mid-1960s. The main investors were East African Asians (the Chandes, Madhvanis, and Chandarias), settlers, traders, and multinationals. These groups were attracted to Tanzania because they were uncertain about political stability in Kenya and Uganda, about the future of the East African common market, and because the government gave them the right signals. Value added in manufacturing rose from 109 million shillings in 1960 to 271 million in 1966, with employment increasing rather more slowly, from 20 000 to 30 000 workers (Coulson, 1982: 168-175).

Overall, the balance of payments was healthy (Coulson, 1982: 145-167), and per capita incomes grew at 2% a year, a level not surpassed until the investment boom starting in the late 1990s (Bigsten and Danielson, 2001: 15). Needless to say, the industrial structure that was emerging was typical of import-substitution industrialisation (ISI) in many developing
countries, characterized by over-capacity, weak forward and backward linkages, a high import content to production, and significant repatriation of capital (Coulson, 1982: 168-175). Nevertheless, these investments were probably as much as Tanzania could expect, and the period should be viewed as reasonably successful in terms of creating value-enhancing economic rents.

2.2 The ujamaa period, 1967-78

With the Arusha Declaration in 1967 Tanzania embarked on a turn to the left, a process that had important implications for rents and their management. The government nationalized the commanding heights of the economy, and introduced a Leadership Code that prohibited politicians and officials from engaging in private business. Local councils were abolished and there were increased efforts to centralize agricultural production and marketing. The result was an impressive centralization of rents, but unfortunately this was not matched either by sound policy or technocratic competence, with disastrous results.

Rents

Within weeks of the Declaration, the government nationalized all the commercial banks, eight milling companies, the six largest import-export houses, the insurance business, and took a controlling stake in seven multinational subsidiaries, including British American Tobacco, Bata Shoe Company, Tanganyika Metal Box and Tanganyika Portland Cement. Not long after, it took a 50% stake in the oil refinery, announced plans to take over all importing and exporting, and retail property with a value over 100,000 Shs (Coulson, 1982). In 1973, non-Tanzanian owned coffee and other estates in Kilimanjaro Region were nationalized and handed over to the Kilimanjaro Native Cooperative Union (KNCU) (Tucker, 2010). Rents that had once been enjoyed by private companies were now in the overall hands of the state.

It soon became clear, however, that value-maximization was not the aim of the nationalizations. This is indicated by the choices made about management and mode of operation. The nationalizations soon devolved into a three-tiered structure of parastatal investment banks, holding companies for productive enterprises, and the enterprises themselves. Each parastatal had a parent ministry, a board of directors, and a general manager. The general manager was appointed by the President, normally on the advice of the minister concerned (Bryceson, 1993: 17). Considerations of ‘political commitment, ideological orientation and patriotic pretensions’ tended to weigh more heavily in this decision than training or professional competence (M. S. El-Namaki cited in Bryceson, 1993: 17).

The appointees tended to come in three varieties. The first group were politicians: nationalist organiser George Kahama was the most prominent, but there were many others (Bryceson even suggests that the parastatal sector was used as a dumping ground for troublesome politicians). The second group were young, educated Africans. Although qualified, they lacked sufficient experience to run large-scale operations. The third group was expatriates. Their position was always tenuous, they often had trouble adjusting to the environment, and they rarely lasted for more than two or three years (Bryceson, 1993: 17-19).

Most of the directly productive parastatals were turnkey projects using foreign partners and expatriate management. Many were wasteful, non-performing investments in areas like cement, salt-panning, bag-making, cashewnut processing, and bicycle manufacture. According to Coulson, ministers ‘had no answer to the fundamental problems posed by parastatals: in the last resort, all they could do was to sack the management and replace it with another that might be no better’ (Coulson, 1982: 283). In some cases, political
considerations prevented even that. The Mwananchi Engineering and Construction Company, a large loss-making parastatal under Dutch management, was allowed to hobble on because government feared the consequences of upsetting Western governments and foreign firms (Coulson, 1982: 295-298).  

Another factor affecting the productivity of monopoly and learning rents was labour discipline, which was also shaped by politics. In 1971 the party published the *Mwongozo*, or leadership guidelines, which forbade leaders in industry from being arrogant, oppressive or exploitative. The result was a rash of strikes and lock-outs which brought some firms to the brink of worker control. Government finally came down on management’s side, but norms of industrial capitalist management were shaken, and some authors noticed a slackening of labour productivity from this period. Managers were wary of their workforces, and found it expedient to over-promote under-qualified leaders of Works Councils; requests to take sick leave, attend funerals and meet family obligations became more difficult to refuse (Bryceson, 1993: 19).

In the agricultural sector, the emphasis shifted from a gradualist, progressive farmer approach to a transformational approach, despite the poor record of transformation schemes in the 1960s. Nyerere believed that productivity in the agricultural sector could only be raised via economies of scale and concentrated delivery of services, hence the policy of encouraging people to abandon their shifting settlement patterns for residence in nucleated villages. In 1973, it became an order to live in ‘proper villages’, and millions of peasants were resettled in a wave of schemes. A typical village was organized into a series of individual plots worked by households, and a bloc farm to be worked collectively. Each household was expected to spend part of its time on the bloc farm, and part on its individual plot, while the village itself became a multi-purpose cooperative society. But studies of the time showed that villagization, far from boosting production, tended to reduce it. Villagers now had to walk further to their fields, which were often left vulnerable to vermin; cattle often trekked across fields destroying crops; not all the villages were ecologically well-sited; and villagers tended to rush their tasks on the bloc farms. In sum, the process of villagization reduced value in agriculture (Coulson, 1979; McHenry, 1979; Mwansasu and Pratt, 1979; Boesen, 1986; Raikes, 1986; Shao, 1986).

Not all farmers were subjected to villagization: residents of areas producing high value cash crops tended to be spared. But they suffered instead from increased agricultural taxation, and a declining real price for their crops on account of exchange rate overvaluation. Studies show a massive transfer of resources out of agriculture and into the state sector. After 1967, Nyerere rapidly expanded the bureaucracy to run both the state apparatus and the parastatal organisations that took over large swathes of industrial, commercial and financial activities. In addition, state-controlled agricultural public goods provision (research, extension) was rapidly expanded and market coordination problems addressed through integrated input and output markets for crops produced by small-holder households. The marketing boards and cooperative unions responsible for running this system proved extremely inefficient, and export-crop farmers saw their real incomes fall year on year as marketing margins increased to help finance the newly established institutions. The disincentive effects soon led farmers to turn to smuggling, or alternative lines of production (Ellis, 1983; Havnevik, 1993).

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8 Even the more viable firms tended to be the kinds of balance-of-payments damaging capital-intensive projects that were not necessarily in Tanzanians’ collective interest. To give just one example, the World Bank funded the rapid expansion of ‘modern’ multinational-operated textile mills in Mwanza and Musoma, when a more appropriate model was Dar es Salaam’s Chinese-built ‘Friendship’ textile mill.

9 Some crops were grown on European-owned plantations.
Cooperatives, including KNCU, were abolished in 1976, which helped precipitate the collapse of coffee estates.\textsuperscript{10}

Other problems were caused by the ideologically motivated decision to take over import-export trade, the ostensible aim of which was to reassert control over Tanzania’s external balance. In the months after the takeover ‘there were more shortages than at any time since the years immediately after the Second World War, and the performance of the State Trading Corporation caused more complaint than any other nationalization, or indeed than any other political move since independence’ (Coulson, 1982: 290-294).

Rent-management

Earlier in the chapter we saw that rent management during the early years of independence was imperfectly centralized. Although there were no cases of grand corruption, there was much unproductive rent-appropriation at a local level through cooperatives, district councils, and party organs. The Arusha Declaration, in addition to nationalization of the economy’s commanding heights, tried to limit this via the Leadership Code that prevented party leaders and civil servants from profiting from private enterprise (Coulson, 1982: 177). The Code prevented anyone in a middle or senior position in party or government from holding private shares, being a director of a private company, receiving more than one salary, renting out houses, or employing others. Together with the take-over of local coops (1976) (Van Cranenburgh, 1990), many of which had problems of corruption (Saul, 1973; Migot-Adholla, 1975; Long, 1970 #75), the abolition of local councils (1972) (Hill, 1979), and the increased state ownership in the economy, it was a clear indication of an attempt to centralize and discipline the rent process.

To some extent this was successful. Reports of embezzlement, kick-backs, and petty corruption are virtually non-existent during this period. Where malfeasance occurred, as in the State Trading Corporation, it was rooted out. Ujamaa Tanzania was not an economy enervated by rampant fiduciary leakage or competition among lower level politicians and officials for bribes. The problem was policy, which by the end of the decade had tipped the economy towards crisis.

There are also signs that technocratic integrity deteriorated further during this period. From 1965 onwards Tanzania essentially became a party-state in which the party, and primarily Nyerere, was ascendant in policy matters. The Arusha Declaration, for example, was announced and debated in a meeting of the party’s National Executive Committee, not in parliament or planning committees (Pratt, 1976: 213). Pratt reports that administrator-ministers, ‘were very uneasy about the hasty and unprepared way in which the nationalizations were done’ (although Nyerere was reassured that they reacted ‘not with horror but with concern’) (Pratt, 1976: 241). Another example is provided by the aforementioned decision to nationalize retail trade. In 1969 an expatriate team had advised government that in order to be feasible, this would need to be a gradual process with different classes of goods being progressively confined to the State Trading Corporation. But in 1970, Nyerere announced peremptorily that the entire trade must be socialized by the end of the year.

\textsuperscript{10} It is said that in 1973 Prime Minister Rashidi Kawawa ordered the nationalisation of the Kilimanjaro estates when President Nyerere was out of the country. The Arusha Regional Commissioner convinced Nyerere not to repeat the exercise in Arusha Region, where the local cooperative movement did not have the capacity to manage the estates (Interviewee J, 06/07/10).
From the mid-1960s onwards, the bureaucracy was rapidly integrated into the one-party state in a manner that made independent administration impossible. At first cautious over the pace of replacing European and Asian civil servants, Nyerere eventually gave in to pressures from among his close associates, leading to the rapid Africanisation of an expanding public service. One commentator has noted ‘a strange myopia’ that ‘was created among some powerful party leaders, a phenomenon which largely crippled the technical performance of the civil service’ (Simba, 1993: 8). Hyden has contrasted colonial and post-colonial concerns with bureaucratic efficiency in similar vein:

Operational efficiency has not been a priority to the same extent after independence. The macro-efficiency of the political system has often been considered supreme and thus … allowed to interfere with the micro-efficiency of individual public institutions. Thus government capacity … has been small. Consequently, both organisational efficiency and effectiveness have been low (Hyden, 1980: 26).

Shivji has argued that the bureaucracy became the core of the post-independence state and that incumbents of state power became the ruling class by default, thus the ‘bureaucratic bourgeoisie.’ He stresses ‘the bureaucratic method of decision-making and the technocratic method of implementation’ of this emerging class, however, ‘there is neither bureaucratic efficiency nor sound technical expertise’ (Shivji, 1976: 96-7).

The business and investment climate

From the late 1960s, Ujamaa policy discouraged private, including foreign, investment. Although most received compensation, foreign and domestic capitalists were expropriated, and new private investment was not encouraged. From now on, foreign investors would only be welcomed as partners of the state, which tended to limit Tanzania’s attractiveness. In addition, nationalization of retail trade created severe input bottlenecks.

Policy mistakes and poor management spelt problems for the economy overall. Industrial output grew initially, but was not sustained. The agricultural sector was similarly disappointing. Tea and tobacco grew respectably, but coffee and cashew much more slowly, while sisal and cotton declined. In the context of drought, the country began importing large amounts of food (Coulson, 1982: 190). Inflation was 2.1% per annum between 1961 and 1971, but 22.5% between 1971 and 1977 (Coulson, 1982: 186). The trade balance went into deficit and the external balance was sustained only with the help of a huge increase in foreign aid (Coulson, 1982: 193). Coulson sums it up thus:

‘The over-all picture is one of government taking increasing control of the economy, putting great emphasis on provision of social services and on increasing the rate of investment through use of foreign capital transfers and high rates of domestic taxation, but being frustrated by failures in agricultural production and low productivity in manufacturing’ (Coulson, 1982: 194-195; see also Svendsen, 1986).

The regime initially posted some impressive results in human capital development, which might have been expected to redound to the benefit of the investment climate in the long term. However, by the end of the decade foreign exchange shortages were so severe that new health centres were without medicines and schools without books.

In our view, the Tanzanian government had in its possession a centralised rent machinery which, combined with the right policies, could have driven a more dynamic form of development. However, socialist ideology and a desire for unrealistically rapid results, led the
government to over-ambitious and ill-considered projects and policies, not least of which was a crippling over-taxation of the peasant sector to finance a largely unproductive state bureaucracy. The lesson to be drawn is that centralized, long-horizon rent-utilisation only becomes developmental when combined with appropriate economic policy and technocratic integrity.

2.3 **Economic collapse, 1979-85**

By the early 1980s the economy was on its knees. A Canadian observer of the time described conditions:

>The outward signs of economic deterioration seem everywhere evident... Long lines form early each morning in Dar es Salaam outside a medium-sized bakery for white bread. There is a shortage of almost all consumer staples: flour, cooking oil, sugar, kerosene, charcoal and clothing. For the first time some residents speak privately of the possibility of urban violence. The Government's policies do not seem able to secure a minimum level of food for the majority of the urban population. As for the rural population there is virtually nothing to buy (cited in Maliyamkono and Bagachwa, 1990: 4).

As the economy sank, and then, after the war with Uganda, plummeted, the nature of available rents altered. Politicians and employees began to plunder the parastatal sector, and a black market trade that doubtless earned rents for many private operators flourished. The central leadership group around Nyerere remained committed to a long-term socialist vision, but rent-management was outside their control.

**Rents**

In the parastatal sector, corruption was rampant. According to Bryceson:

>‘At all levels of staff, parastatal resources were being used for personal gain. There was favouritism in allocating parastatal goods and services. Public vehicles were utilized for private business. Nepotism in hiring was not uncommon. Funds were misappropriated or embezzled and records were falsified. A large proportion of the parastatals had accounts permanently in arrears... unprofessional practices on the part of staff were smokescreened’ (Bryceson, 1993: 21).

Poor productivity and lack of financial control led to widespread losses. By 1985, 165 of 354 parastatals had net losses; in output-labour ratio, private firms out-competed parastatals by a factor of two (Bryceson, 1993: 17). The government promised that it would close down loss-making parastatals, and yet it continued to grant them bank overdrafts. Between 1973 and 1982, bank lending to agricultural marketing parastatals grew from 31 to 61% of total lending (Bryceson, 1993: 21). Although parastatals were supposed to make profits, in reality they were subject to a variety of political directives among which profit-worthiness was not a prime concern (ibid). In 1983 a government commission recommended the liquidation of poorly performing parastatals together with other cost-cutting measures that would involve retrenching 20 000 workers, but large-scale retrenchment never took place (Bryceson, 1993: 23).

The worst culprit was the National Milling Corporation (NMC), which was granted a monopsony over the grain trade in the early 1970s. It had about 4,000 staff and was charged with collecting grain from Tanzania’s seven thousand or so villages. Village governments acted as its buying agents at ground level, for which they were advanced finance.
Unfortunately, accounting capacity at this level was rudimentary, and hundreds of millions of shillings in advance crop payments went unaccounted for. Village governments lacked bank accounts, so payments were made in cash, which encouraged theft, leakage, and banditry. NMC was obliged to buy grain wherever there were willing sellers, a responsibility that led it to incur huge transport costs at a time when the road infrastructure and national haulage capacity were deteriorating. This was exacerbated by the policy of pan-territorial pricing, which meant that food supply increased in the regions most distant from Dar es Salaam. The price was set by a committee of the Cabinet against technocratic advice. To top it all, maize was then sold at a highly subsidized rate, tightly compressing the NMC's marketing margin. In practice, the margins could not be met, and the company's bank overdraft ballooned. Like everyone else in the country the NMC staff's wages were being eroded by inflation, making theft and embezzlement common. This situation was difficult to check, however, since by the early 1980s, the parastatal's accounts were in complete disarray (Bryceson, 1993: 68-77).

The NMC was not the only culprit, however. Black market activities took a variety of forms. Illegal cross-border trade flourished. People registered as foreign tour operators were involved in foreign exchange fraud. The holders of import permits over-invoiced them and pocketed the difference. People importing raw materials for manufacture did not sell through official channels. Cash crop exporters under-invoiced and kept the difference. Some in government and the parastatal sector were involved in foreign exchange scams. Some diplomats abused personal import regulations. Bogus contractors hoarded goods (Maliyamkono and Bagachwa, 1990: xiii). There were foreign currency traffickers, smugglers of livestock, drugs, and hoes, hoarders of scarce items, and so on (Maliyamkono and Bagachwa, 1990: xii).

Many urban and rural traders became rich, while informal private services in transport, schooling, and hospitals flourished (Maliyamkono and Bagachwa, 1990: x). When in 1983 the government cracked down on these activities, there were reports of black-marketeers fleeing the country, burying television sets and other luxury goods, palming off bundles of banknotes on acquaintances and friends, and burning down houses that contained incriminating paper trails (Maliyamkono and Bagachwa, 1990: xii).

Rent-management

One group to benefit from this pattern of rent use was the parastatal managers who sold official goods (or else their requisite industrial inputs) on unofficial markets, often with the connivance of politicians. Another group were the black marketeers tied into these networks of parastatal patronage, many of whom were of Asian origin. As Lipumba noted:

‘The combination of acute shortages and official controls has given very lucrative money making positions for all those who have the responsibility for distributing the scarce goods. There is usually a partnership between these officials and private businessmen who sell the scarce goods on the black market’ (cited in Tripp, 1997).

Whatever the connection of these groups to the top leadership – and it is believed that Nyerere sometimes turned a blind eye to corruption as the price of loyalty – it is clear that they were not under a cohesive top leadership's control. They were decentralized strategies of survival and self-enrichment. Even after the crackdown on economic saboteurs, which saw over a thousand people arrested, no evidence emerged that these activities were organized. Prime Minister Sokoine went so far as to say that the crackdown was an effort, 'to centralize corrupt elements within the Government, and among parastatals and Party leaders' (Maliyamkono and Bagachwa, 1990: xiv).
If the leadership had lost control of rent-management, it had also lost its grip on economic reality, even if it still thought in terms of a long-time horizon. In 1980 the government reached agreement for a major loan facility with the IMF. Later that year the concord collapsed when government failed to meet agreed budgetary ceilings. As an alternative, the country embarked on a National Economic Survival Programme, which exhorted peasants and workers to expand production and exports through hard work. It was formulated in a hurry, and was clearly unrealistic, based on the incredible assumption that peasants would be able to expand exports sixteen-fold. There was no sense of how to achieve the targets, and little discussion even among policy-makers themselves (Havnevik, 1993: 60). This was accompanied by other state ‘corrective campaigns’, including nguvu kazi, which rusticated elements of the urban underemployed, and the campaign against walunguzi or economic saboteurs, which saw over a thousand traders and businessmen, and a few parastatal officials detained and put on trial. But no big fish were netted, reflecting perhaps the decentralized nature of rent-seeking, whereby really big fish were not to be found (Bryceson, 1993: 22-27).

The business and investment climate

According to Bryceson ‘Industrial performance under SAP sank to new depths’ (Bryceson, 1993: 23), with capacity utilization of under 30% (Bigsten and Danielson, 2001: 80). The formal economy more or less disintegrated, and the country returned to a situation of subsistence production and informal markets. Official figures show that per capita incomes shrank by 1.5% a year (Bigsten and Danielson, 2001: 18), but the real figures may have been much larger. As the formal economic structure collapsed, a space was created for private enterprise. However, most of the new activity was located in the black economy and therefore subject to expropriation, making it extremely risky, and not conducive to long-term investment.

2.4 The reform period, 1985-1995

In 1985 Julius Nyerere stepped down as President and was succeeded by Ali Hassan Mwinyi, who as President of Zanzibar already enjoyed a reputation as an economic reformer. His election paved the way for a deal with the IMF, a new policy direction, and for an evolution in the main types of rent-creation and rent-seeking. Some aspects of financial technocracy were strengthened, but the decentralizing pressures unleashed by liberalization could not be entirely contained. By the end of the decade, the Treasury itself was shaken by a major rent-seeking scandal.

Rents

In the agricultural sector, prices were helped by exchange rate devaluation and by some market liberalization. In 1987, the National Milling Corporation’s monopsony over the grain trade was broken, allowing private traders the opportunity to reap an increased share of the available rents. For other crops the situation was more complex, and there are signs that a large share of the rents available throughout the 1980s continued to be consumed by marketing boards and reconstituted cooperative unions (Havnevik, 1993: 298). The 1990s was a decade of relative liberalisation, with cooperatives suffering from the drying up of official credit and, in some cases, private traders stepping in to fill the marketing breach. Yet official support for market liberalisation was weak and most export crops continued to perform badly throughout this period (Cooksey, 2003).
In the industrial sector, the Mwinyi era saw the beginnings of a privatization programme, and thus the transfer of assets from the public sector into private hands. Some parastatals, like the General Agricultural Export Corporation were simply wound up. Others, including Tanzania Breweries and Williamson Diamonds, became joint ventures with the private sector. There were some outright sales, as in the case of Tanzania Shoe Company, and some lease arrangements, as with Tanzania Hotels Investments. Other companies saw management or employee buy-outs. However, the pace of reform was extremely slow (Tripp, 1997: 91). Parastatal managers fought with reformers in the government to keep them under state control (Fischer and Kappel 2005). For years, government subsidies and the opportunities for selling in a controlled market afflicted by acute shortages had been a major source of rents, which some state managers were keen to preserve.

Those rents were increasingly threatened, however, since most of the parastatals that survived faced increased competition. The commercial sector was to a large extent let loose during the Mwinyi era, the result of his policy of permissiveness, or ‘ruksa’. Many formerly outlawed activities were made licit by the reforms, but that did not necessarily lead to a decrease in smuggling. Under the government’s own-funds import scheme, businesses were allowed to use their own foreign exchange, no questions asked, for importing certain classes of goods, which went a long way to easing some of the economy’s crippling shortages. But critics argued that the measures were stimulating importers to earn easy foreign exchange by smuggling prohibited goods such as minerals and wildlife products (Tripp, 1997). Whatever the truth of the matter, the Mwinyi era was a period in which importers and exporters made large profits, and, while most of the gains were secured by Asians and Arabs, a small African business class was also beginning to emerge (Havnevik, 1993; Tripp, 1997).

The deal with the IMF saw the resumption of large foreign aid transfers to Tanzania, and, concomitantly, the emergence of new types of grand corruption. The Mwinyi era witnessed unprecedented scandals. In the most notorious instance, improper discretionary tax exemptions originating in the Ministry of Finance in 1993-94 led to a large fiscal deficit and the freezing of much foreign aid (Bigsten and Danielson, 2001: 20). There were equally massive abuses of a government import-financing ‘counterpart funds’ scheme. Other rent-related corruption scandals are referred to below.

Rent-management

In a previous section we saw that the period 1979-85 was one of extreme decentralization of rent management as economic activity flowed into unofficial circuits outside the control of the top political leadership, even if some high-ranking politicians and officials were involved. In comparison, there was some centralization of rents under the Mwinyi era. At the heart of these efforts were the Ministry of Planning and Economic Affairs and the Treasury, both staffed by personnel with a technocratic outlook (Bryceson, 1993: 27). A number of measures were taken to tighten technocratic controls. For example, the Bank of Tanzania was given a new, singular, mandate – that of ensuring price stability – to replace its previous plurality of responsibilities (Bigsten and Danielson, 2001: 65). For parastatals, the soft budget constraint was tightened up (Bigsten and Danielson, 2001: 72), and many enterprises were divested. The fiscal deficit declined ‘substantially and rapidly’ after 1988 (Bigsten and Danielson, 2001: 33).

But this process was not linear. At the same time as certain centralizing tendencies could be observed in some branches of the state, others were subjected to continued decentralizing pressures. If 'ruksa', or 'laissez faire' was one of the era’s watchwords, another was ‘rushwa’, or
Many leaders had been running private businesses on the sly for years, and in 1991 this was legitimised by the Zanzibar Declaration, which overturned the Arusha Declaration’s Leadership Code (Gibbon, 1995: 14). Those with political connections fell over themselves to acquire land, the assets of former parastatals, seats on private enterprise boards, and to generally use their public positions to make private gains in any way they could. The 1991 Commission of Inquiry into Land Matters reflected the degree of public concern about asset transfers (Havnevik, 1993: 308-309). In 1990 Nyerere remarked that CCM leaders ‘seek leadership positions because of the money involved’ (Gibbon, 1995: 13). A good example was the so-called ‘Loliondogate’ scandal, which concerned the lease to an Arab General of a crucial section of the Ngorongoro game reserve for hunting (Gibbon, 1995: 16). But there were many others. The outbreak of the aforementioned tax exemptions scandal in the Treasury suggested that even the latter was not successfully centralized.

The investment and business climate

By the late 1980s Tanzania embarked on a period of modest economic growth, with the mining and tourism sectors attracting high levels of foreign investment in the 1990s. With the occasional blip the economy has grown reasonably steadily ever since. Per capita incomes grew at 0.6% a year between 1986 and 1997, and at 2% a year for the next two years (Bigsten and Danielson, 2001: 20). However, improvements to the investment and business climate left much to be desired. With a struggle within CCM to determine the direction of policy, and frequent reversals or backsliding on official liberalization measures, most investors lacked confidence in the long-term future of the economy (Tripp, 1997: 88). Meanwhile, the scale of Treasury corruption in the mid-1990s led to budget deficits and an inflation spike. Perhaps unsurprisingly, Arne and Bigsten reported that investors continued to see Tanzania as a risky destination. In spite of the National Investment (Promotion and Protection) Act of 1990 which offered safeguards against nationalization without compensation, an Investment Promotion Centre, and a package of incentives (Tripp, 1997: 89), economic volatility, poor infrastructure, red-tape (18-36 months to establish a business (Bigsten and Danielson, 2001: 102)), and governance problems, including high levels of corruption, appeared to be major concerns.

The Tanzanian environment thus seems to be one of the most scary for foreign investors, and this may be one of the explanations of the extremely low levels of foreign investment in the country. There is also a perception that it is more risky to pay bribes in Tanzania. The system is more complex than that of its neighbours, so one cannot be sure that the recipient of the bribe really can deliver what is promised (Bigsten and Danielson, 2001: 95).

This section has reviewed the nature of rent management from independence in 1961 to the end of the 1980s. We have seen that resistance by politicians and parastatal managers slowed down the rate and depth of institutional reform and prolonged the economic crisis unnecessarily. The following section examines rent management in the last two decades.
3 The political economy of rents in contemporary Tanzania

Previous sections have discussed the relationship between rents and development, and the evolution of rent management in Tanzania. The current section looks in more detail at that process for the contemporary period. It begins by identifying the main sources of rent in the political economy. It then discusses the structure of rent management, before offering some conclusions about the effect of rent-management on the public goods important to stimulating business and investment.

3.1 Sources of rent in contemporary Tanzania

As we discussed in our Introduction, the main sources of rent in Tanzania are transfers, rents for management and monitoring, natural resources, and monopoly rents. Here we discuss each in turn, commenting along the way on whether these rents, as they are currently realized in Tanzania, are value-enhancing or reducing.

Transfers

The biggest single category of rents in Tanzania is transfers organized through the political mechanism. The most important categories are foreign aid, taxation, corruption, patronage spending, subsidies, and primitive accumulation.

Foreign aid
Foreign aid accounts for around 10% of GDP in Tanzania, and budget support between 30% and 40% of the government budget. Significant amounts are also spent on programme and project aid. Foreign aid (or at least that portion of it which remains in Tanzania) represents a windfall gain for the economy, and is potentially value-enhancing if it leads to the creation of public goods that help the economy to grow. Unfortunately, aid may also reduce the incentive for policy-makers to find other sources of economic growth, and, for this and a number of other reasons, might be value-reducing when viewed overall. Aid provides opportunities for numerous other forms of rent-transfer, some of which are discussed below.

Taxation
Taxation represents a major source of rent-transfers in Tanzania. Tax revenues have increased from about 11% of GDP in 2003/04 to about 16% in 2009/10 (URT 2010; MoF website accessed 17/09/10). For sub-Saharan Africa the tax take was just over 18 percent of GDP in 2005 (Fjeldstad, 2009). Revenue collection has increased in recent years, thanks partly to the establishment of the Tanzania Revenue Authority. Nevertheless, there is evidence that the TRA operates well below its potential. In addition, tax assessment continues to be characterized by corruption, extortion and arbitrariness (Investment Advisory Service 2006, 101-2). Tax exemptions are granted to public and private sector companies, to NGOs, churches and donor agencies. During FY2008/09, the government granted the private sector tax exemptions worth over TShs 750 billion. Total exemptions worth TShs 3 trillion were projected for FY2009/10 (Kanyabwoya, 2009). Most of these exemptions were

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11 Fjeldstad (2003: 172) relates how corruption still thrives among TRA officials ‘even with relatively respectable salaries and working conditions.’

12 Members of the parliamentary Economic and Finance Committee were said to be ‘perturbed’ that TRA did not clamp down on ‘unnecessary tax exemptions’.
awarded to investors by the TIC (Rugonzibwa, 2009). No detailed breakdown is available for tax exemptions to different groups of beneficiaries, which frustrates public and parliamentary oversight.

Improper tax exemptions represent a potential welfare loss to society, since they could hypothetically have been spent on value-enhancing public goods. But taxation will only be value-enhancing if taxes are actually put to good use. Subsequent sections suggest that this is not generally the case in Tanzania. In addition, there is evidence that the arbitrary and coercive manner in which taxes are collected has a deterrent effect on business activity, constraining the size of the pie from which taxes can be drawn.

**Corruption**

Corruption in Tanzania is widespread and can be broken into the categories of looting, predation, and rent-scraping.

Looting involves the theft of government monies. In recent years, a major arena for this has been the Bank of Tanzania, which has been implicated in large-scale fraud. In the most serious scam, international auditors Deloitte-Touche wrote to the governor of the Bank of Tanzania in September 2006 questioning over $130 million that was paid in Tanzanian shillings to local companies between May 2005 and March 2006 from the External Payments Account (EPA). Box 1 provides some details.

**Box 1: The EPA and election finance**

It is widely believed that the External Payments Account (EPA) at the Bank of Tanzania was plundered to finance the 2005 elections. The recipients of EPA money were mostly bogus companies set up for the purpose of emptying the EPA, an old commercial debt facility transferred from the MoF to the BoT. An audit by Ernst and Young estimated that, out of TShs 130 billion paid to these companies, over TShs 90 billion were based on ‘invalid and fraudulent supporting documents’ and could not conclude on the validity of the remaining TShs 40 billion due to ‘missing information.’ The Bank of Tanzania’s Governor Daudi Balali failed to respond to the auditors’ queries, and ‘the audit team found no evidence of the Board taking timely and effective actions on the allegations … ’ The Ernst and Young EPA audit established that most of the bogus claims paid to local companies had *already been settled with the original claimants*. Kagoda Agriculture Ltd, which was registered in September 2005 and counted Jittu Patel (see text) as a director, received more than TShs 40 billion just before the elections. Deep Green Finance received more than Shs 10bn. (Registered in 2005, Deep Green took over the assets and liabilities of Meremeta). Attempting to quash rumours, CCM Secretary General Yusuf Makamba denied that ‘CCM has any business links to Deep Green.’ The Governor of the Bank of Tanzania was eventually forced to resign. (He later died in the US, though his body was not brought back to Tanzania for burial). Subsequently, numerous Bank of Tanzania officials and EPA recipients, including Jittu Patel, were arrested and charged. An unusual aspect of EPA is that large amounts of money have been returned to the government under an informal amnesty agreement.

The Bank of Tanzania is not the only source of government plunder, however. Programme and project aid can be the target of looting – systemic petty, grand and political corruption and waste – involving top politicians and government officials. In a recent case, forensic auditors concluded that the Ministry of Natural Resources and Tourism had misused half of the Norwegian-funded Management of Natural Resources Programme, worth about $50 million over 10 years. In an unprecedented move, the Norwegian government requested the Government of Tanzania to return the missing money. The audit findings were challenged by the Government of Tanzania, ‘errors’ were discovered in the report, and the Norwegians eventually agreed to the reimbursement of a token amount (Jansen, 2009).¹⁵

Much looting also occurs in the field of procurement, which accounts for around one third of all government expenditure – TShs 1.8 trillion of the FY 2007/08 budget (Mlinga 2009).¹⁶ Procurement creates rents when the government procures goods or services from the private sector at either inflated price or inferior quality. (In some cases no goods or services are delivered at all). The officials responsible for awarding the tender may then take a kick-back or a cut on the deal. Sometimes, officials and politicians operate on both sides of the deal, and sometimes deals are brokered by intermediaries. The amounts of money involved may be relatively small: a few thousand dollars for a consultancy report or fictitious workshop, or very large: hundreds of millions of dollars for a new power plant. In Box 2 we outline one of the most over-priced procurement exercises of recent years: the Bank of Tanzania Twin Towers project.

### Box 2: The Bank of Tanzania Twin Towers Project

The Bank of Tanzania Twin Towers project is the biggest and most overpriced construction project Tanzania has ever seen. The cost of the project increased from USD 37 million in 1997 to USD 70 million in 2000 and over USD 350 million on completion. Measured in USD/square foot the Bank of Tanzania project costs a multiple of high rise structures in Tokyo, New York or London. Taking the inclusive New York cost of USD 2,000 per sq metre the project should have cost no more than USD 80 million, a loss of USD 220 million to the country. The Director of Personnel and Administration, was sentenced to three years for abuse of public office and causing a loss of more than USD 153 million. As in the EPA case described above, the BoT board failed to protect the public interest in the face of gross irregularities on the part of the Governor and senior management.


Other examples of rent-transfers through corrupt procurement include the notorious BAe systems radar scandal and the IPTL and Richmond power projects. We discuss the last two in a later section. As with BAe, many of the biggest procurement scams are connected to the armed forces (see Cooksey, 2011a, for details).

A slightly different but equally lucrative area of corruption can be called ‘predation’. Logging and hunting are good examples. In the first, undervaluation and non-taxation of forest products in Tanzania lead to huge revenue losses. According to TRAFFIC (2007), an

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¹⁵ In parallel to these events, the GON launched a large, high profile, forestry protection programme (USD 70 million) under the global REDD (Reduction of Emissions through Deforestation and Degradation) initiative. Critics claim that such programmes cannot be properly implemented in countries lacking regulatory capacity and honest government (Nelson, 2010).

¹⁶ The 2010/11 budget is TShs 11.6 trillion, or about USD 8 billion. The government’s tax take is the equivalent of 17.3% of GDP (URT, 2010a). The government overspent in the build up to the 2010 elections, and had to resort to emergency commercial borrowing in early 2011.
estimated 90-95% of potential revenue from the forest sector is lost to illegal logging. The annual revenue losses to the Ministry of Natural Resources and Tourism (MNRT) through underpayment of taxes on logging at district level are estimated at $58m. More revenue is lost via undervaluation in setting royalties (Milledge et al., 2007). 17

Fishing and hunting licensing and regulation are other sources of major natural resource rents that are captured by officials and private actors. 18 The Department of Wildlife in the Ministry of Natural Resources and Tourism provides a good example. Tourist hunting is effectively coordinated and rents allocated by an informal network of private actors, politicians and government officials. At stake are substantial rents accruing from ivory and trophy poaching, hunting bloc allocation, and earnings from up-market hunting safaris (see Cooksey, 2011a).

Finally, we may mention rent-scraping, or petty corruption. Bribes to traffic policemen, health inspectors, customs officers, immigration officials, tax inspectors, land officers – in fact, officials in almost every department of government – are par for the course and part of what it takes to do business or merely go about one’s daily life in Tanzania. Decentralised rent-scraping eats into the profits of small companies and helps prevent them from growing.

**Primitive accumulation**

Another form of transfer, in which corruption is often but not always involved is what Marx called primitive accumulation. This involves the concentration of economic assets in the hands of a few by non-market or quasi-market means. The undervaluation of public assets during privatization, for example, has come in for widespread comment. For example, in 2005, the Kiwira Coal Mine was sold in a non-transparent manner to TANPOWER Resources, a company owned by former President Benjamin Mkapa, Minister of Energy and Minerals Daniel Yona and their close family members. Similar stories can be told concerning the undervaluation of land for agriculture, livestock or urban development. Senior government officials obtain land free or at below-market prices, and land owned by public agencies is sold for private development in exchange for kickbacks. In 2005, senior civil servants living in Dar es Salaam were given the option to buy the government houses in which they lived. Many houses were not worth much, but the plots on which they are located were worth an estimated total of USD 200m in the elite areas of Oyster Bay, Msasani and Seaview. The scheme was extended to ministers and senior CCM cadres (Cooksey, 2005b). 19 There have also been significant instances of primitive accumulation in the horticulture and gold mining sectors, as we shall see in subsequent sections.

**Subsidies**

In spite of structural adjustment and privatization policies, Tanzania maintains a significant parastatal sector, especially in the area of public utilities. The latter tend to be loss making and receive large subsidies from the state. As of June 2010, there were said to be 214 ‘active’ public corporations, 174 wholly owned by the government. A total of 3.3trn/- was paid to government corporations as subventions between 2005 and 2010 (Mwakyusa 2011). The worst example is the power utility TANESCO, which has only managed to survive financially through treasury subsidies totalling nearly TShs 200 billion between 2002 and 2006. 20 In 2009 TANESCO lost TShs 48 billion (USD 36 million), following losses of TShs 162 billion and

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17  The report estimates the income to the hardwood harvester as equivalent to $3/cu m, to the exporter $330/cu m, and as processed wood $1,500/cu m.
18  See Policy Forum (2009a) for a summary.
19  After coming to power in 2005, President Kikwete, who also benefited from the sale, announced that certain houses would be renationalised. This has not happened.
20  Since electricity is consumed predominantly by the wealthiest citizens, subsidising the power utility is effectively subsidising the rich (Hoogeveen, 2007). TANESCO claims it requires USD 1.5 billion ‘over the next five years to improve power production and transmission’ (Meena, 2009).
A significant proportion of these subsidies consisted of capacity charges paid to Independent Power Tanzania Ltd (IPTL), discussed below.

**Patronage spending**

Patronage spending is public spending that is undertaken primarily for political, rather than economic or welfare reasons (although it undoubtedly has economic and welfare effects). It represents another important form of resource transfer, and thus a source of rents. Patronage spending may be directed at branches of the civil service that are vital to ensuring political stability or regime continuity, like the army and police. It may be directed at political elites outside the state, who may have the potential to make political donations and exert political influence. Or it may be directed at a more popular section of the electorate especially at election time (as in the EPA scam above). Between 1970 and 1990, for example, the proportion of the national budget allocated to the military increased from 4% to 14%. In 2007/08, the Government of Tanzania spent USD 400 million on defence and national service, accounting for about 10% of total spending. Attempts to ‘downsize’ the military as part of public service reform during the Mkapa presidency were rebuffed by the military (Ministry of Defence, 1996), suggesting that it enjoyed substantial autonomy from central government in deciding on its manning limits (see Cooksey, 2011a, Appendix 2). Zirker argues that the critical importance accorded to the military reflected in the rising military budgets ‘appear[s] to represent a systematic strategy of cooptation’ (Zirker, 1992, cited by Lindemann and Putzel).

More obvious examples of patronage spending can be found in the shape of disproportionate salaries, car loans and gratuities to MPs and expenses for official workshops and seminars, few of which yield any public benefits.

**Management and monitoring rents**

Civil service wages and salaries account for some 36% of the government budget. The portion of these wages that is higher than civil servants could realistically earn in alternative professions can be classified as an economic rent. Using Khan’s terminology, we can think of it as a rent for management or monitoring of the commonweal. Since average civil service salaries are not very high, the amount of rent is actually quite low, though statutory and ad hoc allowances allow senior officials to live very comfortably. Moreover, the evidence we present on public goods below suggests that there is so much waste and inefficiency in the bureaucracy, that it is difficult to construe most of these rents, qua rents for management, as value-enhancing. Where government routinely ploughs resources into areas of the bureaucracy that seriously underperform, state spending begins to take on the character of patronage.

Since liberalisation, the GOT has contracted the management of a number of key parastatals to private foreign companies in order to increase efficiency. By 2003, five major utilities and

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21 By comparison, the U.K. defence budget was £40bn in FY2009/10, or 5.7% of the total budget, compared to £122 billion on health (17.5%) and £89 billion on education (12.8%) (U.K. Treasury website, accessed 20 September 2010). By the definition of the former head of the IMF, Tanzania spends about twice what it ‘should’ on its military (Hutchful, 1998, quoting Michel Camdessus).

22 Cooksey (2010). In 2009/10, allowances were estimated to be worth nearly TShs 600 billion (Policy Forum, 2009b).
infrastructure agencies had some form of private participation. Most of these arrangements failed. Costly legal disputes involving parent ministries, the parastatals and their external partners have been the rule. To date, the GoT has not found a solution to mismanagement and waste in public utilities (see Cooksey, 2011a, for details).

Natural resources

Agriculture is the largest economic sector in Tanzania and theoretically the largest source of economic rents. However, production is dominated by small-scale producers, mostly peasant households. Smallholder farming households are not well placed to capture economic rents: when markets for their produce are buoyant, most of the additional profits accrue to official and/or private intermediaries.

Medium-sized economic enterprises, meanwhile, can be found in the horticulture sector. As we show in the next section, market conditions and inconsistent government support have prevented operators in this sector from earning very substantial rents, although most appear able to sustain a reasonably good standard of living.

The mining sector is a large source of economic rents in Tanzania. We can distinguish between artisanal and large-scale mining. Most of the ‘claims’ in the artisanal sector are owned by Tanzanian small businessmen, among whom can be counted officials and politicians. The large investments in real estate and luxury vehicles around mining areas suggest that profits from minerals are significant. The large-scale mining sector, the subject of Section 5, is potentially a source of much bigger rents. However, large sunk costs are required before production can begin, and there is evidence that large mines in the gold sector have yet to turn a significant profit.

Other natural resource rents can be found in the fishing, forestry, and hunting sectors, which tend to be very lucrative for their ‘owners’. But because corruption tends to be involved in the management of these assets, it is more useful to think of them as ‘transfer rents’.

Monopoly rents

Imperfectly competitive markets provide various opportunities for earning rents in Tanzania. Some of these are found in agriculture. The sugar market for example, as in most African countries, is regulated by government, meaning that there are significant opportunities to earn rents. The major players are South African, Mauritian and local investors, and the government, which retains a 25% share in two of the four estates (Kilombero and TPC). Kagera Sugar Company and Mtibwa are owned by Sugar Industries Ltd, a subsidiary of Super Doll and Super Star. Kagera is linked to leading politicians and is the recipient of a large government-guaranteed loan that it has failed to service to date. Consequently there appear to be opportunities for Kagera to realize rents in two ways: through selling in a controlled market, and through enjoyment of a financial transfer.

23 Namely Tanzania Electricity Supply Company (NetGroup), Tanzania Harbours Authority (TICTS), Dar es Salaam Water and Sewerage Company (City Water Services), Tanzania Telecommunications Company Ltd (MSI, Sasktel) and Air Tanzania Company Ltd (South African Airways).
24 These two companies run extensive out-grower schemes.
25 Both companies are owned by the Seif brothers. Super Doll, a transport company, was the ‘local investor’ for the ill-fated City Water Services that took over the management of the Dar es Salaam water and sanitation utility DAWASA from 2003 to 2005 (Cooksey and de Waal, 2008).
Sisal is also a comparatively big business, although world prices mean that margins are not particularly large. Perhaps because of this, suppliers have sometimes lobbied government for special regulations favouring what they claim to be an ‘infant’ industry. In one notorious case the Ministry of Agriculture determined that cashew nut could only be marketed in sisal bags, a measure that led to the loss of a large part of that year’s cashew crop (Chachage and Nyoni, 2001).

Cooperative societies also enjoy monopsonistic rights to purchase crops in some parts of the country. Inefficiency and corruption increase cooperative margins at the expense of farm-gate prices. The recently introduced Warehouse Receipt System, formally designed to iron out seasonal price variations, has been used as a mechanism for co-operative unions and their state allies to capture monopoly rents from export crops. Access to potential rents has made cooperatives important political players at the local level, and there is evidence that in some areas, notably the Lake Zone, the ruling party has deliberately re-empowered them as a strategy for local elite buy-in. Large-scale produce buyers, food processing and trading companies enjoy large monopoly rents through direct and indirect political influence. Examples include Mohamed Enterprises Ltd and the Bakhresa group of companies.

Outside agriculture, most large commercial enterprises in Tanzania are in the transport, import-export, food-processing, retail, tourism, telecommunications, and media sectors. Licenses to trade in these markets can bring large rents. Many of the beneficiaries are Tanzanian-born Asians or Arabs, or else expatriates, especially from South Africa. Local and foreign construction and engineering companies also enjoy large rent-earning potential through corrupt land deals and non-competitive tendering. To date, there are only a handful of African businessmen who can compete with non-African businesses of this type. Media and soft drinks mogul Reginald Mengi is Tanzania’s only African ‘tycoon’, although there exist other significant players, including Iddi Simba, Juma Mwapachu and Ali Mfuruki.

3.2 The structure of rent-management

Our analysis has shown that political transfers, in particular foreign aid, taxation, corruption, primitive accumulation, and patronage spending weigh heavily in the architecture of rents in Tanzania: these are the areas where the most lucrative economic opportunities can be found. In this section we look more closely at how those rents are controlled or managed.

Broadly speaking, we have found it useful to distinguish between macro- and micro-levels of rent management. At a macro-level, our sources suggest that resource flows are centralized fairly successfully in the Ministry of Finance, a fact that accounts for Tanzania’s reasonable record of macro-economic management in recent years. However, when it comes to the micro-management of government expenditures, and off-budget resources, there is a rather different story to tell. As we have seen, a large share of the rents in these areas is appropriated as either corruption, primitive accumulation, or patronage spending. This can itself be broken down into two sub-types of rent-management: that which is largely decentralized, and consists mainly in petty predation and extortion; and that which is only loosely centralized, having perhaps an oligopolistic form, and consisting in various examples of grand corruption and patronage spending.

Petty corruption and rent-scraping

Most rent-scraping (petty corruption) is decentralised and uncoordinated. The Warioba Report of 1995, for example, detailed numerous avenues of petty corruption, but it did not offer any evidence to suggest that rent scrapings get passed up the chain of command to the political
centre, as happens for instance in some Asian countries. One of the areas of petty corruption of most interest to us is that which exists at the interface between government regulatory responsibility and private business. Investors often complain about having to pay bribes to do business, in particular in the areas of work permits, utility services, and import clearance. Most of the bribes in these areas take the form of speed money. Bribes involved in the process of securing land concessions are more complex, and do not always work, again suggesting the absence of a centralized system for regulating corruption. In addition, businesses often have to enter into lengthy ‘negotiations’ with tax inspectors, providing further evidence that corruption in this area, although systematic, is largely decentralized and ad hoc.

Grand corruption

The situation with respect to grand corruption is slightly different. It appears to be more centralized than petty corruption, in that the biggest deals are likely to involve high-ranking members of the party or administration. In addition, when it comes to the biggest deals it seems unlikely that the President does not have some inkling of what is going on, even if he is not personally involved. At the same time grand corruption cannot be described as tightly centralized. There is evidence that the President has not always been able successfully to impose his will on deals about which he was unhappy, or to discipline the worst offenders. Indeed, a lack of discipline with respect to grand corruption, and a failure to think strategically about the long-term interests of the economy, is quite apparent. The rest of this section illustrates these points with respect to the IPTL and Richmond scams.

In recent years Tanzania has witnessed two huge scams in its energy sector. The background to these is a vulnerability to seasonal power shortages caused by the country's over-reliance on hydro-electric supplies. In the early 1990s, this dependence led the Ministry of Energy and Mines (MEM) to develop a long-term energy policy designed to diversify power sources. The front-runner for a ‘least-cost’ alternative was natural gas, large quantities of which had been discovered in southern Tanzania. However, an agreement to build a gas pipeline and power station was undermined by factionalism within and between government departments. Subsequently the Ministry of Energy and Minerals entered into an agreement with a Malaysian company, Mechmar, for a 100 megawatt diesel-fuelled power plant. Opposition to the project (Independent Power Tanzania Ltd: IPTL) came from the World Bank, which was part-financing the gas project, as well as from the MEM consultants and elsewhere. The opponents argued that IPTL used the wrong technology, constituted excess capacity, and was highly overpriced. Despite this opposition, IPTL obtained government agreements, tax exemptions and other requirements in record time.

When details of the deal leaked out there was a public outcry, and President Mkapa acquiesced in allowing the contract to go to international arbitration. The tribunal found that the project was significantly overpriced, but evidence of bribery – which, if proved, would have invalidated the contract – was not presented in time to influence the tribunal's ruling that the Power Purchasing Agreement should proceed, with a reduced tariff. Both IPTL and the natural gas agreement were finally signed on the same day in 1999. Thus Tanzania was burdened (belatedly) with the cost of two projects when it only needed one, and entered into an agreement that directly contradicted the ‘least-cost’ policy option. TANESCO’s subsequent financial difficulties have required bailouts from the government, and an ‘emergency’ power project loan from the World Bank (Cooksey 2002).

26 The delays were sourced to the Attorney General’s Chambers.
The IPTL case could have served as a warning to the Government of Tanzania that some rent-seeking activities created more public ‘bads’ than goods, and might have serious economic and political consequences that would undermine future rent-seeking, not to mention the popularity of the ruling party. Instead, a fresh round of procurement, again ‘fast-tracked’ on the grounds of impending drought and power cuts, led to the similarly disastrous Richmond-Dowans project.

Like IPTL, Richmond-Dowans came on stream too late to avoid another power crisis in 2006-07.27 Despite similarities, the two power projects were quite different in nature. Whereas Mechmar, IPTL’s Malaysian parent company, already had some modest experience in the Tanzanian power sector, Richmond was a shell company fronting for an improvised emergency procurement project promoted by Rostam Aziz and Edward Lowassa, respectively MP/CCM Treasurer and Prime Minister.28 A Commission of Enquiry into the scam led by CCM legislator Harrison Mwakyembe criticised Lowassa for using his position to steamroll the project through cabinet and parliament. Lowassa, the Minister of Energy and Minerals, and his predecessor in the post were forced to resign, an unprecedented event in Tanzania.29

Khan and Gray interpret the IPTL case as evidence that the Tanzanian top leadership is too weak to impose its will on party networks, once ad hoc alliances have emerged to share the spoils from very lucrative deals (Khan and Gray, c2006: 51-54). The Richmond case again seems to have benefited leading figures in the party, without the President being directly involved.

The collusive interface between politicians and bureaucrats may be based on years of working together at different levels in the state hierarchy, in addition, perhaps, to elements of patronage, based on such criteria as common educational background, kinship or marriage.30 During the process of creating and strengthening patronage networks, participants find out who they can trust.31 Individuals with the most ambition and determination become patrons, while those who are either too timid or (especially) principled get left behind. An aspirant rentier must be prepared to spend many years lobbying and ingratiating him/herself with existing patrons in order to rise up the slippery pole of clientelism. This process of network creation ensures that the most ruthless and single-minded actors come to dominate rent-seeking processes of all kinds.32

To give one example, Edward Lowassa, Prime Minister in the first two years of the Kikwete presidency, was at different times Minister of Lands and Minister of Water. Lowassa systematically used his position to extract both personal and political rents. Lowassa was involved in the Dar es Salaam and Lake Victoria water projects, Richmond, the Kagera Sugar

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27 Tanzania has experienced periodic power crises since the early 1990s. At the time of writing (April 2011) load shedding has afflicted the long-suffering power consumer since the beginning of the year.
28 Richmond was dubbed ‘Richmonduli’ after Lowassa’s constituency Monduli in Arusha Region.
29 Nazir Karamagi was the Minister, Ibrahim Msabaha was his predecessor. The latter was Minister of East African Cooperation when he resigned (Thisday reporter 2008).
30 It is common for senior state officials to have served in both the bureaucracy and the political system. Full-time politicians like Kikwete (formerly a soldier) and Lowassa are a relatively recent phenomenon. See Bourgouin and Therkildsen (2011) for a persuasive discussion of the education system and national service as important sources of the ruling elite’s solidarity and identity.
31 Since trust is in such short supply, actors spend considerable time and effort in warding off their (real or imagined) enemies including (it is widely believed) recourse to uchawi (witchcraft).
32 Source: discussions with numerous contacts and interviewees, personal observations over time. Top patrons are incorporated in rent-seeking deals they have done nothing to facilitate in order to protect the guilty, should things threaten to go wrong.
Company, and numerous deals involving land, housing, and construction. He also had a reputation for extorting rents from Asian businessmen, with whom he developed a generally antagonistic relationship. 33 Lowassa regularly used his powers as Prime Minister (2005-08) to prevent parliamentary discussion of ‘sensitive’ issues that implicated him, which upset some CCM backbenchers, and helped split the party into pro-Kikwete and pro-Lowassa factions.34

Another example is Rostam Aziz, Tanzania’s premier political broker. Of Persian origin, Aziz, who is in his 40s, is heavily involved in patronage politics within the higher reaches of the ruling party, and is frequently referred to as the ‘king-maker’ who master-minded the strategy to finance Jakaya Kikwete’s rise to power. He was Treasurer of the ruling party until 2007, when his star began to fall as his association with the Richmond power fiasco, described above, and the earlier EPA scandal became public knowledge. Aziz’s Caspian Construction Ltd is a successful contracting company. He is also a newspaper owner. Aziz is the nearest Tanzania has to an example of an ‘oligarch’ with a ‘state capture’ agenda.

Aziz and Lowassa were leading members of the team that brought Kikwete to power in 2005. Opinions are divided as to how well-informed Presidents are by their aides and intelligence services. The President is often characterised as being somehow ‘cleaner’ than most of his aides, who are widely thought to have personal and group agendas of their own. At the same time, it is useful for the President to have the fallback of plausible deniability as the main line of defence against accusations of personal involvement in corruption. The present President has seen fit to allow the prosecution of a number of senior politicians and bureaucrats in relation to scandals that originated under former presidents, though other key (and more senior) suspects have yet to be prosecuted.35 The latter might be interpreted as complicity by the President in these major deals, or worse, direct involvement; however, it is also congruent with political weakness, and an unwillingness to further destabilize the CCM boat.

Tolerance of damaging rent-seeking deals like IPTL and Richmond can be partly explained by electoral pressures. As political competition within the ruling party and between the ruling and opposition parties increases, so short-term considerations come to dictate political rent-seeking strategies. One interviewee stated: ‘[These days] nobody is thinking longer-term.’ Panic rent-seeking prior to elections allows any initiative to proceed, however shoddy. The same interviewee said: ‘The political apex cannot stop a dubious deal because nobody is asking and nobody knows what is dubious’ (Interview H, 04/04/09).

If this is the case, it indicates a lack of centralization over rent-management, which prevents the top leadership from acting in the interests of the nation or even the party over the long-term. For this reason we say that rent-management in Tanzania is at best only loosely-centralised, and it is definitely not oriented to the long-term.

33 In one case, Lowassa waited until an Asian businessman had built and furnished two large blocks of luxury flats in Oyster Bay before having one of the blocks declared illegal and proceeding to order both blocks vandalised by teams of private labourers. Six years later, the buildings are still unoccupied. This is an example of vindictive ‘rent destruction’.
34 Lowassa is widely thought to aspire to the presidency in the 2015 elections. As well as enjoying the support of a number of ruling party MPs, Lowassa is also said to have recruited widespread support from Regional and District Commissioners, key players in Tanzania’s politico-administrative-security nexus.
35 In particular Andrew Chenge (radar) and Lowassa (Richmond). Both were reelected in the 2010 elections, though neither was given a ministerial portfolio. Aziz was also reelected.
The role of the bureaucracy

Readers will recall from the Introduction that our comparative study of patrimonialism in seven African countries found that one of the enabling conditions for centralized, long-horizon rent management was what we called ‘technocratic integrity’. Consequently we looked into the character of the bureaucracy in contemporary Tanzania. Our interviewees and a broad range of research findings lead us to conclude that the bureaucracy is vulnerable to political pressures in respect to government spending, procurement, and regulation. There is a sense that senior positions in the bureaucracy are increasingly placements by the political leadership, and that to varying degrees, bureaucrats carry out the politicians’ rent-related orders, or allow themselves to be sidelined over major issues of policy, procurement, or regulation. The Ministry of Finance and the Bank of Tanzania have a mixed record in terms of their role in maintaining macro-economic stability, suggesting that conjunctural factors, including the election cycle, may be important.36

The presidential prerogative to appoint heads of hundreds of government bodies, including parastatals gives the head of state and his advisors enormous patronage leverage. A view expressed by a number of our key respondents was that under the fourth phase government, the number of technically competent senior officials has fallen as politically determined appointments have been made by the group around Kikwete.

3.3 The investment and business climate

With these points in mind, we turn now to look more closely at the impact of rent-management on public goods provision, and in particular on those intermediate public goods that make up the investment and business climate. Readers will recall from our Introduction that the investment climate refers mainly to perceptions of risk, or the ability of investors to retain profits. Among the factors affecting it are the level of political stability in a country, evidence of expropriation, arbitrary demands by government officials or politicians, and macro-economic stability. Although there is some overlap, the business climate, is more concerned with the costs that investors face. Among the relevant factors are the presence or absence of market coordination, the amount of regulation and taxation, the cost of infrastructure, and the availability of affordable financial and human capital.

We will see that Tanzania performs reasonably well in the areas of political and macro-economic stability, and that investors rarely face unexpected and arbitrary forms of political interference. However, when it comes to the threat of expropriation, Tanzania’s performance has deteriorated in recent years. Consequently, an investment climate that for more than a decade has been quite good, now appears threatened. And when it comes to the business climate, the story is more worrying still. Tanzania’s structure of decentralized, short-term rent management contributes to a situation in which infrastructure is unreliable and sometimes expensive, taxation and regulation are opaque and unpredictable, human capital development is extremely poor, and market coordination is virtually non-existent.

The investment climate

**Macro-economic stability**

In spite of the examples of waste, inefficiency, and corruption detailed above, the Tanzanian state has been reasonably successful in bringing macro-economic indicators under control. Inflation has been reduced from over 30% a year to less than 10% by increasing tax

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36 Both the Mwinyi and the Mkapa presidencies exhibited these tendencies, as argued above.
collection and reducing budget deficits. Increased aid flows have also helped, as has the introduction of technocratic hardware such as the Platinum financial management system. The banking sector no longer underwrites the losses of the parastatals and agricultural cooperatives to the same extent that it used and privatisation has attracted substantial foreign investment into key sectors. The economy has grown quite steadily since 1995.

**Political stability**

Mainland Tanzania has enjoyed nearly half a century of peaceful independence in which it has been governed by a single political party, a record of political stability almost unrivalled in a continent notorious for ethnic conflagration, military coups, and civil war, and a fact that has undoubtedly increased its attractiveness to investors. High spending on defence and turning a blind-eye to corruption in the armed forces, might be conceived as part of the price Tanzania pays for political stability. We suggest that military procurement involving large rents is in part motivated by the desire of the ruling coalition to keep top military cadres on-side. At the same time, it could be that ‘the military’ is powerful enough in its own right to leverage additional predatory rents.

In addition to oiling the military machine, economic rents are also distributed to other strategic groups in the interests of securing regime continuity. One way of distributing patronage is inflating cabinets. Nyerere’s cabinets were relatively small, numbering a mere 15 at the beginning of his rule to about 27 at the end. Under Mkapa and Kikwete they have doubled in size. Most ruling party MPs are kept relatively quiescent by their large salaries and allowances and opportunities for involvement in further patronage and corruption networks. The minority of outspoken ruling party MPs, concerned with the party’s long-term survival prospects and/or genuinely aggrieved by moral scruple in light of endless high-profile corruption scandals, are either bought off or threatened. Vocal opposition leaders are also offered bribes, accused of corruption or moral turpitude, or threatened with violence.

Tanzania remains politically stable but there are signs that its politics is becoming more turbulent. The introduction of competitive party politics has increased pressures on the elite to permit rent-seeking throughout the party and state, a trend accompanied by the rise of money as the only important political ‘means of exchange’. Unfortunately this trend appears only to erode the ruling party’s legitimacy still further, making rent-seeking contests increasingly visceral. The question arises whether the liberal dispensation of patronage and other rent-earning opportunities is really the best means for securing political stability. Given Tanzania’s comparative absence of ethnic cleavages and the declining legitimacy of coups in a post-Cold War era, it is arguable that patronage spending could be reined in without posing a major threat to political stability.

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37 Nyerere had only three deputy ministers (Adolfo Mascarenhas, personal communication 09/08/09). Another estimate is that Nyerere had only eight ministers in 1961 (Kuhenga, 2008). Kikwete’s 2005 cabinet had 29 ministers and 31 deputy ministers, which was reduced to 26 ministers and 21 deputies in a cabinet reshuffle in February 2008 (Guardian reporter, 2008). In the post-independence years there were only 180 MPs, compared to 324 currently, only 232 (72%) of whom are directly elected.

38 An MP’s salary of TShs 12 million a month is the equivalent of USD 8,000 at April 2011 exchange rates (USD=TShs 1,500). MPs receive other benefits, including TShs 100,000 parliamentary session daily sitting allowance (USD 67), a fuel allowance, large car loan and a hefty gratuity at the end of every five year presidential term. Kimaro (2009) cites approximate figures showing that US senators earn 11 times PPP per capita income, compared to 49 times in Tanzania.

39 In the build-up to the 2010 elections, the personal life of Chadema’s presidential candidate received much media coverage (see Lusekelo, 2010), and there are strong rumours that another leading Chadema politician had been ‘bought’ by the ruling party (the rumour suggests that he should have held out for a better deal). Party loyalties are often weak or purely fiduciary, as reflected in the number of threats or actual defections by aspirant politicians and party members for both ruling and opposition parties.
Expropriation and arbitrary demands

Generally speaking investors need not fear expropriation of their investments in Tanzania. Despite its socialist-populist rhetoric, there seems little likelihood of a return to the types of nationalization that were witnessed in the late 1960s. Nor have we found evidence of undue pressures exerted on companies to employ unqualified relatives of officials, or to offer equity at knock-down prices (although many foreign companies find it strategically useful to invite politicians and civil servants to sit on their boards). Nevertheless, as our section on horticulture shows, there have been isolated cases of small investors losing their property through the courts, especially if their interests clash with those of powerful local figures. Moreover, failure adequately to defend property rights in the horticulture sector has sometimes led to land going uncultivated, which then makes investors vulnerable to legal expropriation. Finally, and as we shall see in Section 5, the political climate has recently turned against foreign investment in mining, making the sector vulnerable to arbitrary state action.

Business environment

The negative effects of decentralized rent-management can be most clearly seen on the business climate.

Regulation

In 1997 the Investors’ Roadmap for Tanzania detailed a number of bureaucratic constraints on investment. Officials were often not in the office or failed to attend meetings on time, or forms were not available, raising the opportunity costs of doing business with government. There were difficulties of acquiring or registering land: a certificate of occupancy took between 3 and 12 months, building permits were often delayed, bribes might not work. Businesses also had to pay bribes to be connected to the telephone network or water supply; otherwise a wait of 18-24 months was possible. The process for acquiring work permits was difficult and non-transparent, with high pay-offs required. Finally, operational requirements were onerous, with an average of 89 filings a year (compared to ‘only’ 48 in Uganda) (Cooksey 2011a).

There is some evidence that this situation began to improve in the late 1990s, but leveled off after 2000. In 2006, the IMF described Tanzania's business environment as ‘very poor’, and this was offered as a ‘key reason why private sector participation in economic activity in Tanzania has been modest’ (International Monetary Fund, 2006: 12-13). Problem areas highlighted were: ‘burdensome licensing procedures, reflected in high start-up costs, insufficient access to credit, restrictive labour regulations, difficulties in registering property and poor property rights, and very poor infrastructure’ (IMF, 2006: 9). The World Bank’s 2006 Doing Business report ranked Tanzania 140th out of 155 countries surveyed in the ease of doing business. According to the World Bank, Tanzanian taxes are so numerous and so complex that most businesses ‘must cheat to survive.’ Ambiguity (‘virtually everything appears to be negotiable’) and high taxes create a ‘hothouse for corruption’ (World Bank 2009).

Respondents highlighted the cost of bank credit, but also complained about tax rates and attempted extortion by TRA officials.


Other sources (Moore and Schmitz, 2008: 18) include: www.investmentenvironment.org; www.enterprisesurveys.org; www.weforum.org.
Utilities and infrastructure

Perhaps the biggest failure of the Tanzanian state can be found in the area of infrastructure and utilities provision. We have already discussed problems at TANESCO. In the World Economic Forum’s 2009 *African Competitiveness Report* nearly three-quarters of Tanzanian entrepreneurs identified electric power as the most serious constraint on doing business, compared to an average for African countries of 20% and a low-income average of 30% (Figure 3).

**Figure 3: Top 10 most serious constraints perceived by entrepreneurs**

![Graph showing the top 10 most serious constraints perceived by entrepreneurs in Tanzania, Africa, and low-income countries.](image)

*Source: World Economic Forum (2009/10).*

For businesses the main problem is not tariff levels but low voltage and frequent power outages, including extended ‘load shedding’. According to the IMF:

‘Poor infrastructure … is best reflected in the pressing problems currently faced by the energy sector. … Shortfalls in energy production and higher costs have undermined economic performance and the financial position of the state-owned power company…’ (IMF, 2006: 13).

TANESCO both owns generators and buys power from independent power producers. As we have seen, the latter have been the objective of major rent-seeking scandals. Politically-driven power projects like IPTL in the 1990s and Richmond/Dowans in 2007 have had major negative consequences for domestic, commercial and industrial electricity users, and have undermined local and foreign investment. There are also major problems with the Tanzania Port Authority and International Container Terminal, and with TANROADS, as mentioned above (Cooksey 2011a).

To anticipate our conclusions, the failure of the ruling elite to restrain destructive predation and rent-seeking even in areas as vital for the national economy as roads, power supply and port services suggests that, at best, these self-defeating practices are beyond the control of this group, or, at worst, that it is actively involved in their invention and execution.
Human capital development

The World Economic Forum’s Global Competitiveness Index (GCI) compares business views and some ‘hard’ data on a large range of indicators across countries. Tanzania ranked as follows on selected public goods in the latest GCI reports (Table 1).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2008-09 Rank</th>
<th>2008-09 Percentile</th>
<th>2009-10 Rank</th>
<th>2009-10 Percentile</th>
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</thead>
<tbody>
<tr>
<td><strong>Quality of infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Air transport infrastructure</td>
<td>111</td>
<td>83rd</td>
<td>114</td>
<td>86th</td>
</tr>
<tr>
<td>Port infrastructure</td>
<td>113</td>
<td>84th</td>
<td>120</td>
<td>90th</td>
</tr>
<tr>
<td>Electricity supply</td>
<td>122</td>
<td>91st</td>
<td>122</td>
<td>92nd</td>
</tr>
<tr>
<td>Telephone lines</td>
<td>129</td>
<td>96th</td>
<td>128</td>
<td>96th</td>
</tr>
<tr>
<td>Roads infrastructure</td>
<td>109</td>
<td>81st</td>
<td>108</td>
<td>96th</td>
</tr>
<tr>
<td><strong>Quality of education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary school enrolments</td>
<td>22</td>
<td>16th</td>
<td>25</td>
<td>19th</td>
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<tr>
<td>Education expenditure</td>
<td>112</td>
<td>84th</td>
<td>116</td>
<td>87th</td>
</tr>
<tr>
<td>Primary school quality</td>
<td>120</td>
<td>90th</td>
<td>123</td>
<td>92nd</td>
</tr>
<tr>
<td>Secondary school enrolment</td>
<td>134</td>
<td>100th</td>
<td>125</td>
<td>94th</td>
</tr>
<tr>
<td>Quality of secondary school maths</td>
<td>125</td>
<td>93rd</td>
<td>128</td>
<td>96th</td>
</tr>
<tr>
<td>Higher education and training</td>
<td>132</td>
<td>99th</td>
<td>128</td>
<td>96th</td>
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<tr>
<td><strong>Quality of health</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Average (all indicators)</td>
<td>116</td>
<td>87th</td>
<td>116</td>
<td>88th</td>
</tr>
<tr>
<td>Malaria incidence</td>
<td>133</td>
<td>100th</td>
<td>118</td>
<td>89th</td>
</tr>
<tr>
<td>Business impact of HIV</td>
<td>123</td>
<td>92nd</td>
<td>121</td>
<td>91st</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>123</td>
<td>92nd</td>
<td>121</td>
<td>91st</td>
</tr>
<tr>
<td>HIV prevalence</td>
<td>126</td>
<td>94th</td>
<td>125</td>
<td>94th</td>
</tr>
<tr>
<td>Business impact of malaria</td>
<td>127</td>
<td>95th</td>
<td>128</td>
<td>96th</td>
</tr>
</tbody>
</table>


It is evident that Tanzania continues to score extremely poorly in human development areas that are crucial to the long-term development of the economy. Failure to deliver effective public goods in the field of human capital development is partly attributable to the corruption and waste that permeate the public sector. To take just one example: for many years, donors have been trying to ensure a supply of adequate books and teaching materials to primary schools, but this is continually undermined by widespread rent-scraping (see Cooksey, 2011a, for details).

Partly in consequence local and foreign investors regularly complain about the lack of qualified workers, poor work discipline and dishonest staff. Low quality education and training force foreign investors to employ more expensive expatriate staff, to the dismay of national politicians and opinion leaders. Pressures from the East African Community (EAC) to reduce barriers to labour movements between member countries have been resisted most strongly in Tanzania, where there is a fear of a major influx of better-educated Kenyan and Ugandan

43 Respondents to the GCI questionnaire are a relatively small number of local and foreign business owners and managers. See [weforum.org](http://weforum.org). Hard data (*) are from official statistics.
workers. Claims that foreign workers are taking jobs away from equally qualified Tanzanians are common.  

**Market coordination**

Since the advent of economic liberalisation, the Government of Tanzania and the formal private sector have established various business promotion fora, general and sector-specific business associations and lobbies. As early as 1988, the Government of Tanzania promoted the establishment of the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA). The Confederation of Tanzanian Industries (CTI) was set up in 1991 and the Tanzania National Business Council (TNBC) in 2001. Donor agencies, in particular the World Bank, DFID (UK), USAID (USA), and Sida (Sweden), have supported the process with loans and grants. Other business lobbies include the CEO Club and the Tanzania Private Sector Foundation (TPSF) and numerous sector-specific organisations in mining, tourism, agriculture, horticulture, the timber trade, and so on.

It would take a separate study to scope these organisations and their membership and assess the extent to which they influence public policymaking, legislation and regulation. Mwapachu claims that the TCCIA represents only commercial interests, not farmers or industry. He also flags the possibility that donors play too large and pro-active a role in sponsoring business associations and umbrella organisations, undermining their accountability to members and long-term financial viability (Mwapachu, 2005: 386-7).

Recent donor-financed efforts to improve the investment and business climate include the multi-donor Business Environment Strengthening for Tanzania (BEST, 2003 to date) and the World Bank’s Private Sector Competitiveness Project (2006). BEST financed the establishment of the Better (sic) Regulation Unit in the Prime Minister’s Office, the business registration unit BRELA and reform of land, commercial and labour laws. But given the overall weaknesses of Tanzania’s investment and business climate described in this report, it is reasonable to hypothesise that formal business associations have relatively little impact on policymaking and regulation.

We did not find any examples of informal business-politics relationships resulting in developmental instances of market coordination, although coordination across the public-private divide was evident in cases of predation and looting.

### 3.4 Conclusions

This section has detailed some of the main sources of rent in contemporary Tanzania, pointing to political transfers (in particular aid, taxation, and various forms of corruption), and discussed the structure of rent-management. We have argued that while government income and expenditure are broadly balanced thanks to a reasonably strong and centralized Ministry of Finance, at meso- and micro-levels rent-management suffers from a lack of control. Grand

44 For example: ‘The majority of these expatriates are either not qualified or possess the same skills as some of our citizens. Sectors which are seriously flooded with unskilled experts are health, education and tourism.’ The author (Correspondent, 2009) blames corrupt immigration officials for granting work permits to unqualified expatriates.

45 One interviewee in our gold study described TCCIA dismissively as a ‘bunch of traders’ and claimed that a number of umbrellas organisations were more accountable to the donors who sponsored their establishment than to their business members. Our horticulture study examines constrains on donor-financed business associations becoming effective representatives of their formal members.

46 Legal reforms are promoted through the relevant ministries. BEST is also involved in ‘strengthening’ the TIC, and promoting small and medium enterprises through the Ministry of Industry, Trade and Marketing.
corruption and patronage spending, for example, are loosely centralized at best. Most decisions are made by ad hoc cliques that straddle the higher reaches of the state and the private sector. Presidents appear to have some knowledge of their activities, but this is tacit or partial. There is little evidence of Presidents intervening successfully to ensure that instances of rent-seeking are oriented to longer-term growth. Indeed, there is some evidence that damaging rent-seeking has been permitted in the interests of funding election campaigns. Meanwhile, there is a general permissiveness with respect to lower level petty rent-seeking or rent-scraping, even in strategically important areas of the state. The effects on the climate for business are lamentable. While Tanzania is not an especially risky investment destination (although the risks have been increasing), it is a high cost/high nuisance one. Infrastructure, regulatory performance, and human capital all leave much to be desired, and pose a serious deterrent to increased investment from inside or outside the country.
4 The political economy of the investment climate in horticulture

This paper seeks to establish whether it is possible to improve the climate for business and investment in Africa by ‘going with the grain’ of existing political-economic realities, which often means going with the grain of the kinds of corruption, cronyism and rent-seeking glossed in the literature as ‘neo-patrimonialism’. In our Introduction we presented theoretical and empirical evidence in support of the idea that neo-patrimonialism was compatible with a strong investment climate if two conditions held: 1) policy was broadly pro-market, and 2) the structure of rent-management was centralized and geared to the long term. In Section 2 we proceeded to examine the evolution of the relationship between rent-management and the investment climate over the first forty years of Tanzanian independence, and in Section 3 we took a closer look at the past decade. Throughout, we have argued that Tanzania has never completely succeeded in combining centralized, long-horizon rent management with pro-market policies, and that for this reason the investment climate has been below potential.

In the current section we shift our focus by examining the investment and business climate in a particular business sector, that of horticulture, and seeing what that tells us about the structure of rent-management in the Tanzanian economy. Further details are provided in Cooksey (2011b).

Our analysis is based on a literature review, web trawls, and semi-structured interviews with key industry stakeholders in the Arusha-Moshi area in December 2009, and a brief second round of follow-up interviews in June 2010. The section proceeds as follows: we begin with a brief overview of the history and characteristics of Tanzanian horticulture, before discussing the investment and business climate, formal and informal modes of doing business, and finally the rent-management structure.47

4.1 History and characteristics of the horticulture sector in Tanzania

Tanzania is blessed with natural comparative advantages when it comes to horticultural export production. The climate is favourable, the soils are fertile, and locations at different altitudes/temperatures can be found to suit the needs of different varieties of flowers, cuttings and seeds. Nevertheless it is a relative newcomer to the industry. Cut rose exports began in 1989, and have since been joined by other horticulture products. Climate, soil, and transport links make Arusha and Kilimanjaro regions the main exporting areas, but Tanga, Iringa and Morogoro also have considerable export development potential.

The first investors in the industry were Dutch nationals and companies based in Kenya, who began to invest in cut flowers, cuttings and seed propagation in northern Tanzania, albeit on a relatively small scale. The European flower industry is dominated by Dutch companies and most African floriculture (including Tanzanian) products are sold on the daily Dutch auction (‘the clock’) (World Bank, 2005: 152).48 Business picked up during the mid-1990s, and the value of horticultural exports from Tanzania increased from USD 5.2 million in 1997 to USD

47 Unless stated otherwise, we use the term ‘horticulture’ in this section to refer to both horticulture and floriculture.

48 According to this source, expansion took place through ‘existing players … restructuring and expanding their operations’.
26.7 million in 1999 (Quarterly Economic Review, 1999: 19). In 2008, exports were worth an estimated USD 146 million.49

Many of the first foreign investors experienced high failure rates or struggled to survive. We heard of a number of cases where the initial investors wrote off substantial losses and were bought out by other interests. In theory, these second and later generation investors should stand a better chance of success, benefiting from the efforts of their predecessors to obtain land titles and learning from their business mistakes.

As of mid-2010 there were fifteen or so companies growing flowers, flower cuttings and seeds for export. In addition, five companies export vegetables, vegetable seeds, and fruit.50 This section focuses on these commercial companies (‘export horticulture’). 51 Most of the investors with whom we are concerned are members of the Arusha-based Tanzania Horticultural Association (TAHA), which was set up with funding from the Netherlands’ government,52 and has received funding for various projects from USAID.53 This assistance has proved very useful in terms of underwriting coordination costs that the industry could not have financed itself, as well as in encouraging joint efforts to address common problems, detailed below.

4.2 The investment climate in Tanzanian horticulture

Readers will recall from our Introduction that we understand the investment climate to describe the degree of perceived risk faced by investors. Risk perception is influenced inter alia by factors such as political instability; the possibility of expropriation of property; large and arbitrary fluctuations in the rate of taxation; the inability to enforce contracts and debt obligations; and extreme and arbitrary forms of political interference in hiring and pricing decisions. According to Moore and Schmitz (2008: 19), governments can improve the investment climate by helping to reduce the unpredictability that businesses face, in particular the degree of uncertainty over their ability to profit in the future from investment decisions made now. As well as reducing these forms of unpredictability, governments can boost the investment climate by providing confidence to investors that they will make the necessary infrastructural investments that their sector requires, resolve conflicts between firms, or provide loan guarantees at appropriate junctures.

In subsequent sections we examine the main features of the investment climate in Tanzanian horticulture, examining political stability, natural resource rights, finance, and taxation.


50 Interviewee D, 25/06/10. There may be other exporters who are not members of TAHA.

51 The main horticulture export companies in the Arusha-Moshi area are the following. Tengeru Flowers, Arusha Blooms, Mt Meru Flowers, Tanzania Flowers, Kliffora and Hortanzia all export cut roses, Dutch Farms exports lisianthus, Dekker Bruins Tanzania exports chrysanthemums, and Fides Tanzania export various cuttings. Tengeru Flowers and Arusha Blooms are owned by Tanzanians. Kliffora, Dekker Bruins and Tanzania Flowers belong to the Bruins family. The manager of Hortanzia recently joined up with Arusha Blooms to resuscitate the company. Mount Meru Flowers, Tanzania Flowers and Tengeru flowers are considering a merger to achieve economies of scale and cut managerial costs. Fides Tanzania is a branch of a Dutch company whose major shareholder is a large Japanese brewery.

52 Including the Tanzania Agriculture Productivity Programme, a five-year project sub-contracted to consultants Fintrac.

53 Inter alia, USAID financed the airfreight project and a Small Growers Capacity Building Project. TAHA also receives funds from the Ministry of Industry, Trade and Marketing (MITM) and the Tanzania Private Sector Foundation (TPSF).
Political stability

When asked what drives investment in horticulture, one of our respondents cited law and order as the most important precondition. In the post-independence period, historical grievances over land rights between farming and pastoral communities in neighbouring Kenya, for example, have been the object of political mobilisation and growing sectarian violence. In the 1990s some Kenya-based firms ‘decided to hedge … against political or other risks in Kenya’ and invested in Tanzania, where land rights are also controversial, but not to the same degree. Tanzania’s often-cited ‘peace and tranquility’ remains a major ‘plus’ for investors, compared to other countries in the region (Kantai, 2009).

Natural resource rights

One of the key factors determining the health of any investment climate is security of property – whether this be achieved by formal or informal means – and the risks to investors of expropriation. In the case of Tanzanian horticulture, this translates in particular into security of tenure over land and water. To understand the growth of the horticulture industry in Tanzania it is necessary then to understand the evolution of private land and water rights from the colonial period to the present day.

Most of the farms in our study are based on the fertile, densely-populated lower slopes of Mount Meru, which have been the scene of struggles over land and water rights from pre-colonial days to the present (Listowel, 1965; Coulson, 1982: 111; Spear, 1996: 213-240). In the early twentieth century, the German colonial regime cleared an ‘iron ring’ of freehold land around the base of the mountain for German settlers, exacerbating already critical land shortages. At the same time the Germans created a forest reserve above 5300 ft, preventing further expansion up the mountain (Spear, 1996: 215).

After the First World War, the British replaced the Germans with Afrikaner, British and Greek farmers, who were granted long-term leases by the state. Land alienation led to chronic and often violent conflicts over land and water rights between local Meru and Arusha people on the one hand and the settlers and the colonial state on the other, culminating in the celebrated Meru Land Case in 1951.

At Independence freehold title was abolished to be replaced by leaseholds, and some European farmers abandoned their estates. In 1969, leaseholds were replaced by rights of occupancy, meaning that any land, including land held under customary title, could be appropriated by the state, with compensation paid for the improvements made (buildings, permanent crops). During the Ujamaa period, most of the remaining commercial farmers left and their properties were transferred to parastatals, villages and cooperatives. These entities proved unable to farm the land profitably, and informal (i.e. not legally sanctioned) occupation of the land ensued.

54 Security of land tenure, taxes and other costs of doing business, and credit, were his other main preconditions.
55 The Kenyan horticulture sector was temporarily affected by the violence and insecurity surrounding the 2008 elections. In Naivasha, ‘Growers … responded to the violence by housing workers on the secure farms and hiring extra security personnel. The Government also provided armed escort for the journey from the farm to the airport’ (African, 2009).
56 At the same time the Germans created a forest reserve above 5300 ft, preventing further expansion up the mountain (Spear, 1996: 215).
57 The ‘iron ring’ was broken in a few places to give peasant farmers seasonal access to lowland pastures without trespassing through settler farms (Spear, 1996: 1951-2).
58 In this case the Meru protested at the United Nations the alienation to European settlers of a section of their land. However, the protest was unsuccessful.
In the mid-1980s the beginnings of economic liberalisation encouraged some former owners to reclaim their land, for which they had received no compensation and had not had their title deeds revoked. Much former estate land also passed into the hands of local and national elites. Subsequently some land from both categories was sold to new investors, and it is on this that most of today’s horticultural operations are to be found.

The late 1980s and early 1990s witnessed a rash of land conflicts as locals squatting and farming on former estate land found that old or new owners were claiming or reclaiming possession. Witnesses to the Presidential Lands’ Commission ‘spoke bitterly about land being given away to foreign ostrich breeders and flower growers who are busy evicting food-growing indigenous peasantry’ (URT, 2004: 61-2). While former President Nyerere was still alive it was difficult for the government to side with investors against ‘squatters’, some of whom had lived on the reclaimed estates for many years and who now claimed rights of occupancy and compensation for their investments in crops and houses (ibid). But Nyerere’s death in 1999 removed that informal protection and during the second half of the Mkapa presidency (2000-2005) investors’ rights were better enforced and squatters ordered to leave. Conflicts were common when commercial farmers attempted to expand the acreage under cultivation into areas occupied by local farmers and herdsmen. Such confrontations, which were often violent, involving the mobilisation of the police and Field Force Unit (FFU), were usually settled in favour of the commercial farmer.

However, it is important not to overstate the extent to which investor property rights have been upheld. Generally speaking the courts have been unreliable protectors of these rights, or, more accurately, court orders are not automatically respected either by local people or local officials. As one interviewee noted, ‘What matters is local politics, not the law’ (Respondent A). This means that court orders (which can themselves be costly to acquire) often need to be supplemented by informal lobbying of local or national authorities. These appeals are time-consuming and presumably incur side payments (though no interviewee was prepared to confirm this). Last, investors also attempt to protect property rights by allocating shares to prominent persons and having them on boards of directors. One of our respondents had a senior Tanzanian personality on his Board of Directors, but only once did the company call on him to find a solution to an administrative problem (not to do with land rights) and that some time ago (Interview C, 24/12/09).

Most investors felt that their land rights currently were relatively secure. Nevertheless farm land is generally developed a piece at a time. Poor security complicates investment plans on undeveloped parts of estates. Interviewee B employs 24 security guards on a 30 ha farm with 300 employees. Perhaps providing employment to local women and men attenuates the likelihood of conflict with surrounding communities, but there is little farm owners can do to guard against organised ‘invasions’ (although currently these are rather rare).

Even though most investors currently felt fairly secure in their property rights, foreign investors leasing land for commercial agriculture do run the risk of the lease being revoked, with little hope of legal redress. Box 3 cites a recent example from Kilimanjaro.

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59 In one instance, after a meeting in Patandi, Nyerere authorised the resettlement of farmers on alienated farms in Arumeru district but his orders were not implemented by local leaders.
60 Statements such as ‘you can’t do anything here if you don’t have contacts’ lead to this conclusion.
61 The farm run by interviewee G started off with 4.7 ha, expanding to 6.7 and currently 10 ha.
62 About half the manual workers are women.
Box 3: Brits versus Mengis over Silverdale Farm

In May 2004 Briton Stewart Middleton leased Silverdale and Mbono Farms, Hai District, from Mr Benjamin Mengi, a younger brother of IPP media and soft drinks tycoon Reginald Mengi, for $112,000. Middleton began growing vegetables for export to Europe and received EuroGAP accreditation. In May 2005, Mr Mengi threatened to cancel the lease on the grounds that he had not been paid in full. There followed four years of what is described as a ‘campaign of violence and harassment’, culminating is the Middletons fleeing the country.

On 22nd November 2005, the Guardian and Nipashe newspapers accused Mr. Middleton of issuing a $7,000 cheque to Mr Mengi that bounced and of forging the lease to Silverdale and Mbono Farms. The Middletons allege that Mr Mengi used the legal system and his brother’s media outlets to harass and slander them through a ‘defamation campaign’ in IPP Media publications. In one case a court ordered Mr Middleton to pay Mr Mengi $90,000 damages for libel as well as the confiscation of all his property and animals.

President Kikwete assured Mr Andrew Pocock, the British High Commissioner, that the rule of law would prevail. The case remains unresolved. Reginald Mengi is a director of the Commonwealth Business Council in the UK and sat on a contact group for the Blair Commission for Africa. He regularly condemns corruption in government and has publicly accused a number of top Asian businessmen of involvement in political corruption. It appears that Benjamin Mengi had himself leased Silverdale Farm from a local cooperative society, which subsequently cancelled the lease.

In the mid 1990s, one of our expatriate informants invested in a once famous coffee estate in Kilimanjaro that he leased from the local cooperative society. After some time, a prominent local politician orchestrated the invasion of the estate, culminating in a pitched battle with the estate employees during which our informant was slashed with a machete. When the Regional Commissioner arrived in the afternoon he was surprised to find him alive: ‘We thought you were dead!’ Drought and poor prices forced the investor to turn to vegetables as an out grower for the largest exporter at that time. This too proved unprofitable, and he left the estate in 2003. The current tenant is producing avocados for export.

Sources:
http://www.ippmedia.com/ipp/guardian/2006/01/19/58115.html
Interviewee H, 24/06/10; interviewee J 06/07/10

The Silverdale example shows that even lobbying the Head of State does not guarantee the resolution of an investment dispute (Mengi is a strong supporter of the ruling party). However, we have not found any leasehold disputes of this particular type in Arumeru, which is not to say that the area was without conflicts over land.63 The TAHA secretariat claims that in 2008 it successfully ‘lobbied the Arumeru District [Council] to intervene on a conflict between a

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63 Perhaps the consequences of the 1973 nationalisations make the acquisition and retention of land rights in Kilimanjaro that much more complicated than in Arusha-Meru. There are exceptions: one TAHA member leases land from a cooperative society in Kilimanjaro Region. Although the lease has changed hands, the arrangement has worked successfully for over a decade (Interviewee H, 24/06/10).
horticultural investment and the residents of Oldonyo Sambu’ (TAHA, 2009a: 17). Local Maasai had ‘invaded’ the farm, which had been left in a dilapidated state by the previous owner. The investor spent much time lobbying at all levels, attending village meetings, and so on, in order to resolve the issue.

Like land, access to water for agricultural purposes has been the source of recurrent conflicts since colonial times (Larsson, 2001: 238). Kelsall and colleagues reported one conflict between Arumeru communities and large farmers over water rights in 2005 (Oxford Policy Management et al., 2005: Part 3). However, we did not come across any conflicts between farmers and villagers over water rights in our current sample.

In sum, there remains a lack of clarity over legal land rights in Arumeru District, a fact compounded by an inadequate courts system. Nevertheless, after the first wave of investors fought a series of physical and political battles to secure land, most current investors feel their natural resource rights are relatively secure. Yet rights are not routinely enforced, and investors may have to go to higher authorities to protect them. Even then, there have been isolated cases of investors losing access to land after what we assume to be politically motivated interference.

Finance

As noted above, one of the key ways a government can help the investment climate is by providing loan guarantees to investors at appropriate junctures. Five current investors have concessional loans from the Tanzanian Investment Bank (TIB) while one has a company loan. The TIB loans originated in a government guaranteed Bank of Tanzania financial facility for flower companies. There is reason to believe that the loan facility was brokered by a prominent ruling party MP who is a flower farm owner. One other Tanzanian farm owner and three Europeans also benefited from this facility (Interviewee E, 24/06/10). If this story is correct, it is an interesting example of how informal relations may benefit investors, including foreign investors who would probably not have been able to broker such an advantageous deal themselves. That being said, although the TIP has provided investment capital, it has not supplied sufficient overdraft facilities for the sector to finance running costs. Most farms are therefore permanently cash-strapped.

The past few years have been a challenging period for farmers. Many small Dutch flower and seed companies were bankrupted by the 2008 financial crisis, which saw a 15% decline in

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64 As a result ‘TAHA is now represented on the Arumeru District Development Council.’
65 Email message, interviewee E, 01/07/10. Proceeds from marijuana growing may have encouraged local officials to support the Maasai or at least look the other way. Or it could have been a simple land grab. There have been no further invasions to date.
66 According to the author, major water wastage through inefficient irrigation practices continues to exacerbate water shortages and conflicts. From 2009 to date, unprecedented water shortages on the southern flanks of Mt Kilimanjaro have led wealthy residents to sink boreholes of up to 200 metres.
67 Hydroponic water management means that horticulture does not use large volumes of water, and most farms have boreholes.
68 Ten percent interest over ten years, with a five year grace period. With inflation and the devaluation of the Tanzanian Shilling, the real interest rate will be significantly less than 10%
69 By contrast, most of the first generation of flower farmers were financed totally or in part by loans or grants from Dutch or other dedicated development funds. The Dutch grant facility is PSI (formerly PSOM). The British facility is the AFCF. Other donor countries have similar funds. The Dutch fund was highly thought of by one of our interviewees, who benefited from it himself (Interviewee E, 24/06/10). Nevertheless most of these early ventures failed. The Commonwealth Development Corporation (CDC) also funded horticulture ventures.
flower sales.\textsuperscript{70} Flower auction prices fell, and demand for some varieties ceased completely. At least two Tanzanian rose exporters suspended production as a result of the crisis. Horticulture exporters are also particularly vulnerable to risks regarding exchange rate movements because they deal in a number of currencies. For example, many inputs are costed in USDs whereas most sales are in Euros. One investor told us that adverse exchange fluctuations had caused full-year cost increases equivalent to 8-10\% of sales, undermining profitability and postponing bank debt repayments.\textsuperscript{71}

Investors in Tanzanian horticulture are yet to see a return on their investments, and the credit crunch has put the break-even point back by perhaps years. As of mid-2010, three companies with TIB loans\textsuperscript{72} were considering a merger that would create economies of scale, streamline management and result in larger volume deliveries, but TIB has to agree to such a move (Interviewees G and H, 24/06/10). The TIB did however agree to reschedule growers’ loan repayments following the 2008 global credit crisis (TAHA, 2009b: 14).

Market coordination

One of the biggest challenges horticulture investors face is getting their goods to market in a good condition and timely fashion. But exporting perishable goods is expensive and risky. For example, at nearby Kilimanjaro International Airport (KIA), small exporters rely on sending cargo with commercial airlines, but by doing so they run the risk of flight cancellation or being told there is no free cargo space on any particular day.\textsuperscript{73} Risks would be reduced if there were a dedicated horticultural freight handler, but market coordination problems prevent this. Such problems exist whenever a number of relatively small enterprises is dependent on external services best provided collectively. Ideally, horticultural exporters would reduce transport risks by contracting a dedicated freight service to ship produce. The minimum freight to make this a viable transaction to the European Union is about 40 tonnes per consignment, but Tanzanian horticulture producers are still below the critical mass that would allow for dedicated freighting.\textsuperscript{74}

The Tanzania Horticulture Association (TAHA) has helped both flower and other horticulture exporters to coordinate freight services. With financial support from USAID and technical assistance from the consultancy firm Fintrac, it took the initiative to establish its own dedicated transport coordination company, known as TAHA Fresh Handling Ltd.\textsuperscript{75} The initiative is described in Box 4.

\textsuperscript{70} Kisaka (2009). TAHA predicted a loss of up to 7,000 jobs ‘unless the government chipped in to bail out the industry.’

\textsuperscript{71} Email from interviewee C, 23/06/10. Foreign exchange risks affect profitability rather than the decision to invest. Currency movements can also be advantageous, of course.

\textsuperscript{72} Mt Meru Flowers, Tanzania Flowers and Tengeru.

\textsuperscript{73} Respondent B cited the risk of relying on KLM, currently the only international airline landing in Kilimanjaro International Airport (KIA), to upload a consignment of flowers.

\textsuperscript{74} In December 2009, TAHA members sent about 5 tonnes of vegetables and 18 tonnes of flowers and fruit a week to Nairobi. Gibbon and Ponte (2005:155) recount how Homegrown, Kenya’s largest fresh vegetable and cut flower producer/exporter, ran its own nightly freight flight to the United Kingdom. By 2003, Homegrown had 6,000 local employees and an approximate 15\% market share of Kenyan horticultural exports.

\textsuperscript{75} The USAID project is known as the Tanzania Airfreight Project (TAP). The umbrella USAID support is through the $25m Tanzania Agriculture Productivity Program (Fintrac websites www.fintract.com accessed on 31/12/09). The related USAID website www.tanzania-agric.org was still (December 2009) under construction.
Box 4: Dedicated air freight: victim of the global credit crunch?

The USAID/Fintrac Tanzania Airfreight Project was designed ‘to create a sustainable, commercially viable airfreight solution’ to TAHA members’ export requirements. TAHA set up TAHA Fresh Handling Ltd as its economic wing in 2007. TAHA Fresh shares are owned by seven exporters. TAHA and TAHA Fresh entered into negotiations with private freight companies, the Tanzania Civil Aviation Authority, Kilimanjaro Airport Development Company (the managers of KIA), fuel companies and Swissport Tanzania Ltd with the objective of securing dedicated, cost-effective freight services to upload horticultural products in KIA. In 2008, TAHA Fresh entered into a contract with British freighters MK Airlines (MKA) to fly a B747-200 into KIA once a week to uplift between 15 and 40 tonnes of TAHA-members products, and flights began in December 2008. The deal involved MK collecting a consignment of fish from Entebbe, then horticulture products from KIA, and finally other freight from South Africa. The arrangement worked well, and MK made about 45 round trips to KIA, uploading over 1,000 tonnes of freight. But MK did not survive the global credit crisis and flights came to an end after nine months. Since then, most Tanzanian horticulture freight has been exported from Nairobi’s Jomo Kenyatta Airport. TAHA expects a rapid increase in horticulture exports in coming years, which should make dedicated freighting a less problematic proposition, assuming, of course, that freight rates do not constitute a ‘killer condition’ for future investment and growth.


As of mid-2010, exporters are using Nairobi and Dar es Salaam for their exports, pending a second attempt at securing a dedicated freight service into KIA.

4.3 The business climate in Tanzanian horticulture

Moore and Schmitz define the business climate as ‘policies designed to help reduce business costs’, providing a variety of examples: ‘The availability, reliability, and cost of public infrastructure…the availability of skilled labour; the implications for businesses of the procedures for registering companies, employing labour, taking legal action, paying taxes, importing and exporting, meeting environmental standards; tax rates; and the typical, predictable level of bribes that a company might have to pay to get its business done and protect itself from political interference’ (Moore and Schmitz, 2008: 19). In the following sub-sections we discuss taxation, regulation and certification, and market coordination.

Taxation

Tax policy is a powerful tool for providing incentives and disincentives to investors and financiers. Flexible tax regimes can help industries deal with external shocks. During the early 2000s, the Tanzanian Investment Centre (TIC) offered a package of incentives76 to horticulture investors, which doubtless helped attract some of them to the country. Unfortunately, implementation of these measures has tended to be poor.

Several respondents reported that VAT and import duty exemptions granted by the Ministry of Finance through the Tanzania Investment Centre are not honoured by the TRA or the Director of Customs respectively. According to some respondents, TRA officials routinely inflate tax liabilities as a ploy to negotiate unofficial deals. Claims for VAT refunds can take up

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76 The incentives consisted of the normal tax breaks on investment capital, rights to employ foreign managers and repatriate profits.
to two years to complete.\textsuperscript{77} In addition, businesses frequently have their imported inputs held up at the border point until duty is paid, despite the fact that they should be duty free. Claiming back duty is a ‘long and often futile task’ (World Bank, 2005: 152).\textsuperscript{78} One respondent told us that ‘bureaucracy’ and lack of coordination between government departments costs his business hundreds of thousands of dollars. These and other weaknesses in the business environment add an estimated 20\% to the cost of doing business. The tax authorities ‘try to make your life as miserable as they can’ (Respondent B).

Nor has the government been particularly constructive with regard to taxation during the recent global financial crisis. Many governments around the world reduced taxes on key productive sectors in response to the crisis. The Government of Tanzania did not reduce taxes on the horticulture sector. Worse, the 2009-10 budget abolished exemptions on ‘deemed capital goods’. This came as ‘a rude shock to the horticultural investors’ since most of their agro-inputs came into this category (Box 5) (TAHA, 2009b).

\textbf{Box 5: TIC clarifies on ‘Deemed Capital Goods’}

The abolition of exemptions on ‘deemed capital goods’ announced in Minister of Finance, Mustafa Mkulo’s, FY2009/10 budget speech upset many investors, who suddenly found themselves billed for 25 import duty on raw materials and other goods that had been duty exempted as part of the Tanzania Investment Centre’s (TIC) incentives to investors. On January 11, 2010, the TIC posted a ‘Notice to Investors’ in national newspapers assuring Certificate of Incentives’ holders that the Tanzanian Revenue Authority (TRA) would continue to honour deemed capital goods exemptions ‘until the expiry of their respective implementation period.’ The Notice noted that TIC had ‘continued to receive complaints from a lot of investors’ and had forwarded the complaints to the Presidential Investors Complaints Bureau, which is chaired by the Chief Secretary, on November 9, 2009. The Bureau ‘reaffirmed TRA’s announcement of July 13, 2009 that such investors be allowed to continue … enjoying tax relief…’ The mandate to issue or amend Certificates is conferred to TIC by the 1997 Investment Code. The ‘final fate’ of new investors in priority sectors who have been promised tax exemptions is currently the subject of consultations with the government. The Notice ends: ‘we have in place a Government that listens and care (sic) for investors. Please be patient because Tanzania is still your best investment location’ (emphasis in the original).

The Tanzania Horticulture Association also lobbied the government over the exemptions issue. After listing a number of problems with the tax and regulatory regime in place, TAHA requested that: ‘The government should come up with … initiatives to support this infant industry and to ensure that it is competitively positioned in the global markets. The decision on the deemed capital goods therefore comes at the worst moment …’

Some investors believe that granting and not recognising tax exemptions reflects rent-seeking practices in both TIC and TRA. Others talk of a tendency to try to squeeze every cent out of investors who are already in the country.

\textit{Source: Guardian, 11 January 2010; TAHA (2009b: 11).}

\textsuperscript{77} A disputed claim requires the claimant to deposit one third of the amount disputed, with no interest or guarantee of getting the money back promptly.

\textsuperscript{78} At the time, it took up to two years to reclaim VAT on exports although exports were theoretically VAT-exempt. The Ethiopian government provides a 70\% subsidy: an investor puts up USD 300,000, the government contributes USD 700,000.
In the 2009 budget, the Government of Tanzania also announced the imposition of VAT of 18% on air freight exports. TAHA protested that imposing export taxes on its members would make Tanzanian floriculture uncompetitive, and one TAHA member declared that he would relocate to Kenya if the tax were not rescinded. After three months’ intensive lobbying involving the Ministries of Agriculture and Finance, TRA and the Prime Minister’s Office, the Government of Tanzania withdrew the proposed tax (Interviewee D, 21/06/10).  

Lastly, local government authorities impose crop cesses of five percent on all cash crops. Flower growers say they refuse to pay the cess on the grounds that they receive no services from local authorities. While this saves them a lot of money, it does not endear them to local authorities.  

Regulation and certification

Companies exporting produce to the European Union are subject to rigorous phyto-sanitary and environmental certification procedures. There are also Tanzanian rules and regulations to adhere to. The Tropical Pesticides Research Institute (TPRI) is mandated to test and register all chemicals used in the horticulture industry. The registration process was superfluous since the UN Food and Agriculture Organisation (FAO) has its own internationally recognised register of certified chemicals, and most of the main chemicals were imported from Kenya, where they had already been certified (World Bank, 2005: 152). Through formal procedures, TAHA members successfully lobbied the government to abandon the TPRI registration procedure, eventually registering over 300 chemicals for use in the horticulture sector (Interview D).

Public goods

As noted in a previous section, horticulture investors face the perennial challenge of getting their goods to market in a good condition and timely fashion. As well as incurring risks, this incurs costs. Keeping cut flowers and cuttings in cool rooms and refrigerated trucks during transportation to the airport is expensive. The government can help here by providing public goods like effective and efficient border arrangements, and good and cost-efficient infrastructure. But as we shall in the remainder of this section, the Tanzanian government is failing on most of these counts.

Let us take first the example of electricity, which is needed for various aspects of the production and storage process, including refrigeration. As we saw in a previous Chapter, electricity prices in Tanzania are not prohibitive. However, frequent power outages force businesses to invest in costly generators, thereby undermining any cost advantage Tanzania might here have had.

Roads are another important public good. Although the previous section noted the waste and inefficiency of the Tanzania Roads Agency TANROADS, it remains the case that the Arusha-Moshi road, which connects most of the flower farms to Kilimanjaro Airport is surfaced and in

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79 When TAHA lobbyists spelled out the consequences of the VAT initiative on the competitiveness of Tanzanian horticulture to a senior MOF official, and that Ethiopia subsidised flower exports, he retorted: ‘Don’t tell us how to run the government’. The MOF’s Tax Task Force does not have a private sector representative. Interviews reveal multiple lobbying strategies: single company, a number of companies, or collective (through TAHA).

80 TAHA has negotiated a rate of 3%. It is unclear whether TAHA members will be willing to pay, even at a reduced rate.

81 At the time, TPRI did ‘not recognise the test results and approval’ from Kenya.
generally good condition. The problem concerns the airport itself. Aside from the problem of not having a dedicated freighter for horticultural products, as mentioned earlier, Kilimanjaro International Airport is much more expensive than Nairobi. This is in part because freight handling in Tanzania is a monopoly of Swissport. In contrast to Swissport's monopoly of freight handling in Dar es Salaam and KIA, there are five companies vying for customers in Nairobi. In addition, landing fees and fuel taxes are much higher in Kilimanjaro than in Kenya. For example, in 2008-09, fuel taxes alone added $23,000 to a typical consignment exported from Tanzania (although intensive lobbying by TAHA has succeeded in reducing freight costs by an estimated 30%) (Interview D, 21/12/09).

Because of these problems, most exporters prefer to transport their produce 250 km to Nairobi. However, the road to the border at Nairobi is poorly maintained, and the border itself does not operate efficiently. According to the Secretary General of the East African Community (EAC):

‘... goods going into Kenya from Tanzania reach Namanga, but then get stuck because of bureaucracy and corruption at the border post. This adds one … or two percent of the cost to the exporter.’

The urgency to move perishable produce may make the additional costs to flowers and cuttings exporters more than the 1-2 % quoted above. Respondents also complained about costly delays in clearing containers at Dar es Salaam harbour. One preferred to bring inputs through Mombasa.

4.4 Doing business in Tanzanian horticulture: formal versus informal approaches

One of APPP’s initial hunches was that conventional wisdom on the investment climate, which sees strong formal property rights, transparent regulatory practices, and arm’s length business associations as the key to success, is too limited in its approach. Based on the experience of other countries, we thought it likely that other, less formal, perhaps more clientelistic arrangements may serve equally well and in fact be the only realistic alternative in developing countries like Tanzania. Our horticulture data provides mixed support for that hunch.

On the basis of interviews, we identified two distinct expatriate strategies for negotiating the business and investment climate, especially those aspects that involve protecting property rights and dealing with official rent-scrapping in tax collection and regulation. One is to stick strictly to the formal rules of the game in dealing with the state and not to cultivate informal relationships with politicians and administrators. The other strategy is to negotiate with officials where necessary and to cultivate relationships with key actors from national to local

82 The Arusha-Namanga road repair contract was terminated by TANROADS, leaving large stretches unsurfaced. At the time of writing, another contractor is finishing the job. The Arusha-Dar road is in good condition, but there seem to be substantial delays at the Chalinze weigh-bridge.
83 Interview with Juma Mwapachu, Secretary General of the EAC (Vodaworld, 2010: 5).
84 One respondent had an entire shipment spoiled when the transporter turned off the refrigeration during the trip to Nairobi in order to save fuel (presumably in order to sell it).
85 This respondent had previously employed clearing agents in Dar es Salaam owned by a former Minister of Finance. When the Minister fell from grace, his company lost its competitive advantage.
These contrasting strategies seem to be related to whether the producer is a public/joint stock or private/family owned company.

The Expatriate Manager (EPM) implements the former strategy. He is employed by a medium to large company in an OECD country with a Code of Ethics discouraging bribery or involvement in local politics. The general manager of one such company told us: ‘I don’t waste time talking to high officials who are absolutely not interested in my situation.’ He had not got to know local officials and had no idea who the regional and district commissioners were. He estimated that corruption and inefficiency added 20% to his production and transport costs. These costs are met by loans from head office.

The second ideal-type, we may call ‘the East Africa hand’ (EAH). This person and his family have lived in the region for many years, he speaks fluent (or at least passable) Kiswahili, has a lot of political and business contacts at different levels, considers the ‘informal’ route vital if one is to succeed in business, is sensitive to local cultural practices, and is often concerned with local development issues, which may affect his own long-term business prospects one way or another. The EAH may recount examples where his tactical mobilisation of the local forces of law and order have prevented a land or property dispute of one kind or another from getting out of hand.

Investing time in cultivating good relations with local officials and communities helps resolve local problems. An example is identifying petty thieves informally rather than calling in the police and pressing charges. Roasting a goat and sharing drinks with village leaders is surely a more sensible way of resolving local problems and keeping potentially troublesome neighbours on side than sticking rigidly to formal contracts, official procedures and legal principles. Showing respect for local people and practices establishes trust and good working relations in ways that relying on formal contracts and the legal system alone could never achieve. The substantial transaction costs of this strategy are incurred to help protect the profitability of the EAH’s investment.

When faced with a different type of problem, for example an unexpectedly high tax assessment, or goods held up at the border, an investor has two basic options: he can challenge it or negotiate a compromise. The EPM is likely to challenge it, while the EAH is more likely to seek a compromise – a rapid solution to what might otherwise turn into an expensive and drawn-out dispute.

A third type of investment-climate strategy we observe involves an expatriate investing modestly in a joint venture or leasing land for an export venture. With neither the deep pockets of head office of the EPM or the social capital of the EAH, this type of expatriate is the most vulnerable to rent seeking or other risks, and the chances of failure are proportionately larger. Box 3 (above) cited a recent example, where a relatively small private investment proved vulnerable to the vagaries of the local administrative, security and judicial systems.

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86 These are ideal-typical characterisations. Hybrid varieties are possible along the continuum between these two extremes.
87 Many multinational companies do, of course, practice large-scale bribery. Here we are describing a principal-agent situation in which the agent incurs additional costs that head office is prepared to absorb. Presumably there is a limit to this, determined by the threat to the bottom line posed by extended rent-scraping.
88 One exporter told Kelsall in 2008 that he had had numerous court cases to resolve conflicts.
While on the subject of formal and informal approaches to strengthening (or coping with) the investment and business climate, it is important to note the role of TAHA. Although it collects all the aforementioned types of investors under its umbrella, TAHA undoubtedly sits toward the formal end of the formal-informal spectrum, and is an outgrowth of donors’ conventional investment climate approach. As we saw in previous sections, it has scored some notable successes in convincing government to reverse its decision on export taxes, to reduce costs at Kilimanjaro airport, and to remove the requirement for certification through TPRI. It has also persuaded the Tanzania Investment Bank to extend loan periods for horticultural borrowers, and for a time it organized a collective response to the critical-mass problem in air-freight. In other cases also, TAHA has played an aggressive and pro-active role in lobbying government on behalf of its members. These successes suggest the utility of the formal, arms’ length lobbying approach. However, the transaction costs of such lobbying are high, and, in the words of one informant, ‘the bureaucratic nature of the government system makes it very difficult to push matters to the required levels as there are many layers to unfold before getting there’ (TAHA, 2009a: 23).

In light of this evidence it seems fair to say that both formal and informal approaches to lobbying government have their strengths and weaknesses. However, it also true that neither of these strategies has really succeeded in making Tanzanian horticulture more than a peripheral concern for Tanzanian policy-makers. There are few signs of a recognized common interest between export horticulturalists and top policy-makers. To understand this, it is necessary to turn to the structure of rent-management in Tanzanian horticulture.

4.5 The structure of rent-management in Tanzanian horticulture

What role does export horticulture play in the overall pattern of rent-management in Tanzania? The foundation for sector rents rests on the asset transfers made from the state to private owners during Tanzania’s ongoing phase of economic liberalization. Even though these asset transfers must have had the blessing of central authorities, they do not appear to have been part of a deliberate developmental policy, let alone part of a deliberate policy to grow rents in the horticulture sector. Many of the transfers were brokered by a combination of district authorities and a couple of influential expatriates, one Dutch, one English. At one point former President Mwinyi was said to own an ostrich farm in the area, and it is well known that both national and local elites have acquired former state land in the area. Some of that land has since changed hands, some is squatted on, and some is managed by ‘clients’ of at least one national-level patron. Mostly, the owners appear content to hang onto this land for speculative or patronage purposes.

The lack of attention to protecting asset transfers from opportunistic acts of sabotage or land invasion provides another indication that there is no coherent, centralized policy for growing horticulture sector rents. Generally speaking, local authorities will protect private property rights when prevailed upon or induced by expatriate farmers, but they are hardly proactive in this sphere. The case of Silverdale and Mbono farms in Kilimanjaro (Box 3 above) provides a worrying example of what we assume to be ad hoc private influence over the state.

As we have seen, asset transfers have been supplemented by financial transfers in the form of concessional loans from a state bank. Several horticultural operations would not have been able to get off the ground or survive were it not for these loans. They were brokered with the help of a local politician who is also a flower farmer, and thus represent an example of potentially value-enhancing informal influence over the state. More research would be required into the Tanzania Investment Bank in order to assess whether or not it forms part of a centralized strategy for value-enhancing long-term rent management. However, the fact that
the Bank has not been proactive in rescheduling loans, in addition to the damaging decisions of the Finance Ministry over export taxation suggest that it is not. Indeed, if the surviving flower farms are allowed to go under, the financial rents transferred to them in the form of concessional loans will have been wasted.

It is perhaps not surprising that the few tens of millions of Euros invested in export horticulture are of little interest to top decision-makers. Instead, the sector seems to be left more or less open for petty rent-scraping by local government officials and tax collectors. Were the sector to transform into a significant economic player, it would probably begin to attract more central attention. Recently the government has taken more of an interest in domestic horticulture, producing a horticulture strategy that envisages a prominent coordinating role for government. However, it is focused on smallholders, and commercial farmers may feel themselves fortunate to be victims in this case of a benign neglect. Increased state involvement in commercial agriculture – and smallholder agriculture – is likely to be counterproductive unless the bureaucracy is technically competent, effectively managed, and to some extent shielded from short-term clientelist pressures. As we have argued in previous sections, the signs are that the Tanzanian bureaucracy is none of these things.

4.6 Conclusions

Over the past two decades Tanzania has witnessed some small but not insignificant investment in commercial horticulture and floriculture. This section has shown that those investments have been motivated largely by the natural comparative advantages Tanzania enjoys. Nonetheless, the state, often in collaboration with donors, has facilitated investment in a number of ways: it has presided over a general climate of peace, political stability, and comparatively low crime; it has permitted asset transfers from the state to private operators; it has provided some concessionary finance for the sector; and it has provided some necessary infrastructure, in particular a good road linking the main horticultural areas with an international airport (though the road was not built, it should be stressed, to serve the interests of commercial farmers).

At the same time the state has also neglected commercial horticulture in some respects, and at other times its actions actually harm the investment climate. For example, it has sometimes failed to defend or protect asset transfers (property rights) in a timely or consistent way; it has left operators vulnerable to incompetence and petty rent-seeking by local tax and customs officials; at national level it has made some arbitrary and damaging decisions in relation to taxation; and it has failed in the areas of electricity and airports to provide cost-effective public goods. More generally, there are few signs that commercial horticulture is a sector the government takes a keen interest in nurturing, or even in developing the bureaucratic capacity that would allow it to do so. This differentiates Tanzania from nearby countries like Kenya, Ethiopia, and (more recently) Rwanda, which have seen impressive growth in their horticulture sectors in recent years.

The section has also shown that investors pursue a number of strategies to try and improve or ameliorate the investment climate. These range from the strictly formal to the more informal and clientelistic. The research suggests that each strategy has its strengths and limitations, which may apply to different areas. For example, a formal lobbying strategy might

89 Abdel-Latif and Schmitz (Abdel-Latif and Schmitz, 2009) found that one of the reasons that a common interest between policy-makers and industrialists in the food and communications sectors eventuated in better policy and a boom in investment, was that Ministry staff were highly capable and had relevant sector experience.

make most sense when it comes to addressing issues of general taxation, regulation and certification, while a more informal approach might be better suited to securing local property rights (although this finding is perhaps more a reflection of the contemporary situation than an exploration of its potentialities). Neither strategy, however, has been sufficient to redress a national political-economic system in which the decentralized, short-term structure of rent-management leaves promising industries subject to neglect at best and at worst vulnerable to predation.
5 The political economy of the investment climate in Tanzanian gold mining

In this section we continue our analysis of the investment climate in specific business sectors. Over the past fifteen years, gold mining has attracted very large amounts of foreign investment with the result that between 2002 and 2006, Tanzania exported an estimated USD 2.9 billion worth of gold, making it Africa's third largest gold producer. Exports of 44.6 metric tons of gold were worth USD 1.58 billion in 2010, accounting for 40% of all exports.\(^9^1\) Foreign mining companies have been the single largest source of FDI that Tanzania has ever seen. In the following sections we show how that situation came about by charting the evolution of the sector's investment and business climate. We argue that informal political processes as much as formal regulatory frameworks were responsible for creating a favourable window for investment in mining, but that this window now appears to have closed. A combination of nationalist-populist politics, short-term election pressures, and decentralized rent-management currently increases both risks and costs in the gold sector, and we believe it unlikely that increases in foreign direct investment will be sustained.

Our analysis begins with an overview of trends in the history of gold mining in Tanzania. We then turn to the investment and business climate, examining the factors that have made it attractive for investors, and those that imperil it. Next we look at some formal and informal dimensions of doing business in the gold sector, before examining the structure of sectoral rent-management. Finally, we conclude.

5.1 History and characteristics of the Tanzanian gold mining sector

Tanzania has long been known as a prospective province for gold and other minerals. In the 1920s, the colonial government established the Department of Geological Survey, to map the territory's mineral resources for the first time. The 1920s also witnessed the Lupa alluvial gold rush. In the 1930s, South African and British companies opened mines in Lake Victoria, Mara and Musoma. By the outbreak of the Second World War mines and alluvial gold production exceeded 100,000 ounces a year. The war disrupted further exploration and mining, and by the late 1940s most of the larger mines had closed, though small and medium-mines continued to produce throughout the 1950s.

After independence in 1961 the remaining large companies closed, including Geita Gold Mine in 1966, with the loss of 2,200 jobs. The imposition of economic and trade sanctions on apartheid South Africa (1961-94) blocked further investment opportunities from that source. In 1972 the Government of Tanzania set up the State Mining Corporation (STAMICO) to run the Tanzanian mining sector, signalling the virtual end of ‘commercial’ mining. Artisanal mining continued, while STAMICO's efforts to revive the Buckreef mine were unsuccessful (Hollaway, 2000).

Between 1934 and 1968 gold was traded internationally at USD35/ounce, with the result that investments in gold exploration and mining were seriously constrained. Partial gold price liberalisation in 1968 was followed by full liberalisation in 1975. Subsequent rapid rises in gold prices provided a major boost to gold exploration and mining worldwide, but it took Tanzania a further decade and more to begin to take advantage of the new opportunities for large-scale production.

\(^9^1\) Dow Jones Newswires 04-04-11 0502ET, accessed 10/04/11. Tanzania is currently Africa's fourth largest producer, behind South Africa, Ghana and Mali.
gold exploration and mining. The main beneficiaries of the 1975-1990 period were small-scale mine owners and cross-border mineral smugglers. Estimates range from 500,000 to one million people involved in small-scale mining for minerals and gemstones, of which gold was by far the largest source of employment.

During the post-independence period, and particularly from 1975 to 1985, Tanzania was virtually untouched by global trends in gold prospecting and mining technology, regulation and compliance. Not surprisingly, investors were keen to explore the country’s potential for large-scale mining, employing the latest technologies. The Government of Tanzania started to open up gold exploration and mining after adopting a structural adjustment programme in 1986. To attract investment, it set up an Investment Promotion Centre (IPC), later renamed the Tanzania Investment Centre (TIC) (Lange, 2006: 3; Cooksey, 2008). In 1990, Parliament passed a National Investment Promotion and Protection Act, which identified petroleum exploration and mining as priority areas for foreign investors, and provided for incentives and guarantees.

It is useful to note at this point that the gold mining and exploration industries are symbiotically linked. Before a large mining company will consider opening a new mine, an ore body has to be identified that can be mined economically. Most exploration is undertaken by specialists, known as ‘junior’ exploration companies. After 1990, there was an explosion in gold exploration, mostly by foreign companies, including Samax and Sutton Resources (Figure 4).

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93 Though gold has been mined since antiquity, technological improvements explain why an estimated 75% of all gold ever produced has been extracted since 1910 (Wikipedia, accessed 28/08/09).
94 With donor support, the Government of Tanzania undertook a comprehensive geophysical survey during the 1970s.
95 The minimum size is usually considered to be two million ounces for a large mine. Since such deposits are rare, the big mining companies operate across the globe.
96 There are about 1,000 juniors quoted on global stock exchanges. In addition, there are perhaps 2-3 private companies for every quoted one, so there are between 2,000-3,000 juniors worldwide (ZARI Exploration Ltd. 2009). UNCTAD, citing data from the Raw Materials Group, give a global figure of 149 major metal mining companies in 2006, 957 ‘medium-size’ companies, and 3,067 ‘juniors’ (UNCTAD, 2008:109).
Reflecting this trend, the World Bank in 1994 financed a Mineral Sector Development Technical Assistance Project (USD 14.5m) to introduce ‘a legal, regulatory and fiscal framework, which would provide an environment conducive to private investment in mining’. It was designed in part to build administrative capacity in the Mining Division of the Ministry of Energy and Minerals to register and monitor exploration and mining licences. In 1997, the Government of Tanzania produced a new mining policy that envisioned a private-sector led (large and small-scale) prospecting and mining industry in which the state would act as facilitator, regulator and administrator. The following year, the Mining Act was passed.

Between 1998 and 2003, six major mines were commissioned, five of them entirely foreign-owned and one (Buhemba) a joint venture between the Tanzanian army and a South African company (Meremeta). It is normal in the gold exploration and mining industry for properties to change hands a number of times during their development through joint ventures, sales, mergers and buy-outs. For example, in 1999, Afrika Mashariki sold the North Mara mine to Placer Dome, who were eventually bought out by Barrick, and Resolute bought Ashanti’s 50% share in Golden Pride. Barrick quickly became the main mining company in Tanzania, with three mines in operation and one coming on stream in 2009.97 Anglogold Ashanti (AGA) became the second largest mining interest, operating the Geita gold mine, the largest in the country.

There is a fierce debate in Tanzania about the respective developmental merits of large-scale commercial and smaller-scale or artisanal mining. We should stress from the outset that we are agnostic about this debate, and our aim is not to argue the case either for or against the large-scale mining sector. We are less interested in the generic aspects of mining and more interested in what the mining sector tells us about the climate for foreign business and investment in Tanzania generally.

The Tanzanian mining sector shows signs of developing into a divided industry with many small and unregulated and a few large mines. Ideally, the sector should have a handful of large mines, tens of medium and hundreds of small-scale formal mining operations. Tanzania

97 Barrick also held an interest in the Kabanga nickel project with Canadian company XSTRATA.
only has large formal and small-scale, mostly informal mines (the ‘missing middle’). Below we try to explain why there is no sign of a more mature mining sector emerging.

5.2 The investment climate in Tanzanian gold mining

In this sub-section we examine aspects of the climate for investment that have facilitated FDI into Tanzanian gold mining, as well as those that constrain or deter it. Readers will recall from previous chapters that the investment climate is a measure of the perceived risks investors attach to their ability to profit in the future from investments made now. As such we will look in this section at property rights (including the right to protect revenue streams from unpredictable changes in taxation), and political stability. We will see that a positive investment climate in the mid-1990s has been supplanted by one that is considerably gloomier now.

Property rights

The opening up of Tanzania’s gold mining sector involved the granting of licenses for reconnaissance, prospecting and mining. The last of these effectively involved a transfer of assets from the state, the legal owner of underground mineral resources, to foreign companies. It also involved the transfer from numerous small miners to foreign investors of physical mining sites. Broadly speaking, this transfer process came in three stages. In the first, Mining Development Agreements (MDAs) were signed between private companies and the Ministry of Energy and Minerals; in the second, small miners were cleared from land that had been allocated to foreign investors; and in the third, ongoing mining operations were defended from sabotage by small miners and local communities. We will discuss the first two stages in this section, and the third in a subsequent one.

*Mining Development Agreements*

The boom in gold exploration in Tanzania which began in the early 1990s was followed in the mid-1990s by a series of bilateral agreements between foreign mining companies and the Government of Tanzania. Known as Mining Development Agreements, these set down the conditions attaching to the exploitation of specific mines. MDAs spelled out tax rates and allowances, profit repatriation, hiring foreign staff, arbitration and other conditions. They were designed in part to protect large and high-risk mining investments against changes in tax rates and other conditions that could undermine their long-term profitability. Tax breaks and royalty rates proved particularly contentious. With respect to the former, the MDAs offered various investment incentives. These included tax waivers on imported capital equipment, fuel imports, and VAT exemption on local and imported supplies; provisions for standard rate income and payroll tax, and tax-write-offs for capital expenditures in the year the capital was purchased, plus an additional 15% capital allowances, as detailed below.

Later, these commitments were consolidated with the 1998 Mining Act and the 1997 Financial Laws Act. The 1998 Act guaranteed ‘tax stability’ that prevented the government from changing tax and royalty rates for mining companies. The Act also allowed 100% foreign ownership, provided guarantees against nationalisation and expropriation, and offered unrestricted repatriation of profits and capital. It pegged the royalty rate at 3%, and provided waivers in respect of import duties and tax exemptions on imported machinery, equipment and other inputs. The Financial Laws (Miscellaneous Amendments) Act of 1997 (Section 18) consolidated the tax write-off for capital (investment) costs plus an additional 15% in capital allowances for ‘unredeemed capital expenditure.’ If these were not claimed in a given year they could roll over to future years, meaning that the mining companies could put off the payment of company tax for a number of additional years, if not indefinitely.
This 15% clause, worth many millions of dollars to the mining companies, was an unnecessary and over-generous incentive. Last, many commentators found the three percent royalty 'too low', though there are no objective means of determining a fair rate.98

Site clearances
With MDAs in place from the mid-1990s, the process of securing mining rights began. This involved clearing legal and illegal small-scale miners, farmers and pastoralists from the areas allocated to big gold, and (sometimes) paying compensation. There were said to be hundreds of thousands of small-scale miners on hundreds of claims during the early 1990s. Clearing many of these to make way for big gold mining companies was a highly controversial process, especially given Tanzania's pre-1985 commitment to policies designed to benefit the poor majority.

The trail for big gold mining was blazed at Bulyanhulu in Kahama District, Shinyanga. Bulyanhulu, where gold deposits were discovered by local miners in 1975, was one of the biggest sites of artisanal gold production in the country. Over the years, the site attracted tens of thousands of small miners, including many former diamond miners (Chachage, 1995: 57). Their tenure was first placed at risk in 1989 when Canadian mining company Placer Dome and Dar Tardine (Tanzania) obtained a prospecting license over the Bulyanhulu area. This was revoked, however, in 1992.99 Then in 1993 small miners received some reassurance from government when they were visited by President Ali Hasan Mwinyi, who told them they were permitted to mine at Bulyanhulu, provided they sold their gold to the government. A Bulyanhulu Miners' Committee subsequently applied to the Ministry of Water, Energy and Minerals for prospecting and mining rights at the site, but this application was ignored.

The small miners were disregarded because forces in the Ministry of Energy and Minerals had decided to transfer Bulyanhulu to large-scale foreign mining interests, whatever the President's position. In August 1994, Sutton Resources Ltd—a Canadian mining company quoted on the New York Stock Exchange—signed an MDA for the Bulyanhulu area through its local subsidiary Kahama Mining Company Ltd (KMCL).100

Sutton was destined to play a major role in the subsequent lengthy confrontation between large- and small-scale mining interests. Over the next nine months, there was a series of diplomatic and legal manoeuvrings around Bulyanhulu, as the struggle over property rights played out. This included a series of letters from the small miners and from local authorities to national officials, visits by regional and national officials and politicians to Bulyanhulu, and a delegation by small miners to the capital in Dodoma. None of these efforts were sufficient, however, to overturn the granting of prospecting rights to KMCL, or to alleviate a growing climate of insurrection at Bulyanhulu. In June 1995 KMCL went to the courts to seek an order to evict artisanal miners from the site, while small miners filed a counter-order. In September the High Court ruled in favour of the small miners (see Cooksey, 2011c, for further details).

Judicial decisions were not sufficient to protect the small miners, however. In January 1996, new President Benjamin Mkapa committed his government to the development of the formal

98 One of the most frequently repeated criticism of the mining companies is that 'we get three percent and they keep the remaining 97.' Senior ruling party and opposition politicians repeat this criticism, which is based on a misunderstanding of what a royalty is (basically a tax on rents).
99 The Government of Tanzania accused the company of engaging in gold smuggling. Placer Dome took the issue to international arbitration, and lost. Dar Tardine continued to buy gold from local mines, particularly in Geita, Mwanza Region (see Chachage, 1995: 83).
100 This formal version of the story is disputed (see below). Originally, the Government of Tanzania had a 15% share in the mine.
mining sector, while Minister William Shija told miners in Kakola Village to prepare to leave because they were ‘trespassers’. In July he ordered the miners to vacate Bulyanhulu within one month, and the same evening the Field Force Unit descended on the area and ordered all mining to cease within 12 hours. Evictions began the next day, but were stopped by a High Court order that referred to the ongoing suit between KMCL and the small miners. Up to 3,000 miners subsequently returned to the site. The Regional Commissioner, however, chose to ignore the Court injunction and forced through the evictions. Small miners’ representatives later claimed that as many 54 miners were killed when they were buried alive in their pit, an allegation the government disputed.101

Sutton’s ‘victory’ over the ‘illegals’ was a significant milestone in the tortuous journey towards foreign dominance of gold exploration and mining in Tanzania. When President Mkapa formally opened Bulyanhulu in July 2001, Randall Oliphant, Barrick Gold’s President and Chief Executive Officer said, ‘When we came to look at Africa for mining investment, our destination of choice was Tanzania. Why? Because Tanzania has become a role model for Africa and the world in terms of creating progressive economic, investment and legal climate for mining companies’.102 Mr. Oliphant expressed his thanks to the President and government for their crucial contributions to the mine’s success.

Violent conflicts between big foreign and small Tanzanian miners did not end with the resolution of the Bulyanhulu standoff in August 1996. Hardly a month after the Bulyanhulu evictions, ‘many thousands’ of artisanals were said to have been driven off the Lusu deposit in Nzega District to make room for Samax Resources, a British ‘junior’. Thirteen years later, ‘Hundreds of villagers evacuated from Lusu gold mine in … 1996 … asked President Jakaya Kikwete to help them get their compensation which amounts to Shs 74 billion. The villagers have threatened to set ablaze the gold mine that is operated by Tanzania Resolute Ltd.’ More than 1,600 people were said to be affected (Mugini, 2009).

We shall have more to say about the politics behind the handling of the Bulyanhulu affair later on in this chapter, since it provides an important insight into formal and informal aspects of doing business in Tanzania. For now, it is sufficient to note that the battle for Bulyanhulu not only cleared the way for subsequent mining investments, but also stimulated an intensely adverse reaction to foreign mining among the public, in civil society and the media (Lange, 2011).

Political stability

As we saw in a previous section, Tanzania is unusual in the region for being a haven of peace and political tranquillity. This has undoubtedly made a positive contribution to the investment climate in gold mining. Nevertheless, political stability at a macro-level – an absence of coups or civil war, for example – is not the same as political stability at policy level. Increasingly hostile political attitudes toward foreign mining culminated in 2010 in the passage of a new Mining Act, with serious potential consequences for investors. The remainder of this section charts the development of this negative climate, and assesses some of its implications.

Since the early 1990s, civil society organizations in Tanzania have been pro-actively involved in monitoring and publicising developments in the Tanzanian mining industry. Led by lawyer Tundu Lissu, the Lawyers’ Environmental Action Team is one of the most outspoken and pro-

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101 The Minister for Home Affairs claimed that 11 people died during the course of the eviction through ‘mob justice or natural causes’.
102 Barrick had subsequently bought Sutton.
active advocacy NGOs. LEAT has both exposed foreign mining companies’ malpractices (Barrick in particular) and defended the cause of small-scale miners in courts of law. Though LEAT did not create the generalised public hostility towards the foreign mining companies, it has helped to keep the issue topical.103

LEAT has been assisted by international NGOs, especially in Canada and Norway. They have financed much of the investigation of foreign mining companies’ activities in Tanzania. Canadian NGOs have monitored and criticised Barrick for its global environmental and human rights record. One was responsible for obliging the Canadian government to release official documents covering the period of the stand-off between Sutton and local miners in Bulyanhulu (1994-96).

This activism has fed a generally negative coverage of the sector in the Tanzanian media. Newspaper editorials and op-eds during this period were almost always highly critical of government mining policy, the alleged low levels of taxes paid by mining companies, and allegations of harassment and environmental pollution. The following headlines from Tanzanian newspapers give a sense of the overall tone of the press commentary during the year 2009.

How to assure public it isn’t being ripped off.
Do Tanzanians know the truth on mining?
The human cost of gold.
North Mara Gold Mine, a curse, not a blessing.
Background to mass poisoning of North Mara villages.
Extant mining regime stinks to high heaven.
Mining still clouded by lack of transparency, good governance.
Where did the nation go wrong in mining sector?
Mining firms falsify output figures-ESAMI researchers.
Unfair mining policy depriving Tanzania revenue.
Shivji: Current investors plunder our resources.
MNF: Stop handing mineral riches to foreigners.
Mining: How not to dig Tanzania into a hole.

Many of the more critical articles on a wide range of issues – including taxation, pollution and conflicts at mines – are said by foreign mining company insiders to lack objectivity or an understanding of the basic technical issues involved. While a number of articles showed signs of having been sponsored by mining companies as PR exercises, the apparent bias in media coverage has not been strongly challenged by the foreign mining companies, either individually or collectively. Greater efforts to counter this bias more recently may be a case of ‘too little, too late’.

One junior explorer thought it self-evident that negative media coverage and the activities of civil society organisations in Tanzania and abroad have had a significant negative impact on gold exploration and mining companies’ future prospects. The sustained anti-foreign mining company advocacy of international and national civil society organisations and the negative

103 In a ‘breakfast debate’ hosted by HakiElimu in December 2007, Tundu Lissu suggested that Tanzania had been doing very well before foreign investment came into the mining sector. The notion that Tanzania would be ‘better off’ with small-scale miners and without foreign mining companies was applauded by the audience, which consisted mostly of NGO officials.
media coverage and commentary that went with it served to worsen their already poor public image and create the conditions for anti-foreign mining company politics, which, as we discuss below, have come to a head under the current regime.

Jakaya Kikwete was the Minister for Water, Energy and Minerals when some of the main MDAs were signed in 1994, but in the run-up to the 2005 election he began to adopt a more critical position on foreign mining. Shortly after he assumed the Presidency, he promised a review of mining contracts and legislation. The following year, he appointed the Masha Commission to look into the issue, which recommended that foreign mining companies’ 15% additional capital allowances be abolished. In May 2007 Kikwete told a large crowd at Geita that mining companies that did not honour revenue-sharing agreements would be kicked out of the country. Later he reportedly said that the mining companies have been ‘robbing us’ (Curtis and Lissu, 2008: 27). In November a Mining Sector Review Committee chaired by Mark Bomani was formed to look into mining contracts and taxation issues. Minister of Finance Mustafa Mkulo told Bloomberg news agency that, ‘We can increase revenue from mining companies by 10 times if they all pay taxes’ (Kamndaya, 2008). In June 2009 the Tanzania Chamber of Minerals and Energy warned the government not to increase taxes as this would deter investment in the industry (Citizen reporter, 2009). In February 2010 it ‘strongly recommended’ removal of 17 proposed changes to a Draft Mining Bill. Nevertheless, on 23rd April, the Mining Act 2010 was passed by Parliament (Luhwago and Machira, 2010).

The foreign mining community saw the Act as a continuation of measures serving to erode the fiscal incentives they had obtained from the Government of Tanzania when they began their investments. A major issue of concern for the foreign mining companies in the new Act was the empowerment of the Minister of Energy and Minerals to enter into negotiations with an investor to obtain an equity stake in any venture at any time. Informally, this has been described as ‘a licence for corruption’. Investors also queried the decision to limit new MDAs to projects of over USD 100m – thus discouraging medium-size investors and perpetuating the ‘missing middle’ in the mining industry discussed above – and the proposed review of MDAs every five years, which served to undermine the predictability of the tax regime over the life of the mine.

Other conditions in the Act that the foreign mining companies say will discourage further investment in gold exploration and mining are:

- Although the royalty stays at three percent, it will increase as it is calculated on gross rather than net sales value;
- Limiting the number of prospecting licences (to 20) and the size of exploration areas (to 2000 sq kms) will introduce uncertainties for existing claim holders, limit the likelihood of finding new deposits and discourage further exploration;
- Mining companies should not be obliged to procure goods and services in Tanzania against their business interests;
- foreign mining companies should not be forced to list on the Dar es Salaam stock exchange;
- Ring-fencing adds to the already investor unfriendly fiscal regime.

Barrick, the largest gold mining company in Tanzania, considered the 2010 Mining Act the source of additional ‘insecurity and unpredictability in the investment regime/climate’ as a

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104 In 2009, the government abolished the fuel levy and fuel excise duty exemptions and removed VAT special relief for mining operations, confining it to exploration and prospecting. The following is Barrick’s position as summarised by Mwanyika (2010).

105 Barrick are said to have reduced their exploration budget by 90%.
result of ‘ministerial discretionary powers to make or interfere with commercial decisions’, the negative impact on ‘governance and transparency and room for abuse of power’, all with ‘negative impacts on [the] ability of investors to finance projects – security of tenure and profitability’ (Mwanyika 2010).  

5.3 The business climate in Tanzanian gold mining

We saw in the section above that the early to mid-1990s provided a window of opportunity for investment in the Tanzanian gold mining sector. Promising geological data combined with a professed openness to foreign investment generated a surge of interest in the industry. The government negotiated directly with big mining companies to draft Mining Development Agreements that provided investors the kinds of credible commitments they desired on issues such as property ownership, taxation, and profits. These commitments were consolidated in Acts of Parliament in 1997 and 1998. Nevertheless, this favourable window was soon to close, as the political climate turned strongly against foreign mining companies. The 2010 Act undermined some of the key commitments investors had previously enjoyed.

Compounding this inclement turn in the investment climate, is a relatively unfavourable business climate. While the investment climate has fluctuated, the mining business in Tanzania has been saddled with high costs throughout its existence. We illustrate this in sections below that focus on the issues of crime and security, infrastructure, taxation, licensing, and regulation.

Crime and security

The signing of Mining Development Agreements, the Mining and Financial Laws Act, and the subsequent clearances at mining sites around the country established effective control over property for foreign mining companies. However, those property rights require defending on a daily basis, and only a part of the cost of doing so is borne by the Tanzanian state. From time to time mining sites are invaded by local populations, and more regularly they suffer from acts of sabotage, arson, and theft. For example, in April 2009 armed robbers led by a former mine security guard at Resolute’s Golden Pride stole 3,500 ounces of gold worth more than Shs 4 billion from the mine. Barrick Mining’s turnover of security staff, meanwhile, is reported to be some 80 percent a year.

One particularly difficult site owned by Barrick is the North Mara Gold Mine, the subject of Box 6.

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106 In March 2010 Barrick listed a new company, African Barrick Gold, on the London Stock Exchange. ABG’s assets are Barrick’s Tanzanian mines. Some observers saw the move as a way of separating the underperforming Tanzanian assets from the parent company.
Box 6: Confrontations and leakages at North Mara

Conflicts between Barrick’s North Mara Gold Mine (NMGM) and the local population are chronic. In November 2008, NMGM management complained about the frequent theft of fuel and ‘gold sand’ and other ‘crime related cases’. The ‘huge waste’ of time and money undermined gold production and community development efforts. In December 2008, villagers (the numbers are disputed) raided the mine, armed with bows, arrows and pangas. Field Force Unit troops were brought in from Tarime and Musoma to disperse the invaders, who torched heavy machinery, causing losses of between USD 7 and 16 million. One person died. Barrick suspended production.

In June 2009, villagers accused NMGM of polluting a local river, resulting in the deaths of about 20 people (later 30) and 150 (later 200) cattle. Activists FemAct and LHRC, and the Christian Council of Tanzania (CCT), called for the NMGM to be closed pending investigations into the alleged deaths. NMGM spokesperson said: ‘... that these claims … are ludicrous and void of any legitimacy’. Barrick ‘admitted that water containing acid is leaking from the mine, citing theft of liners that prevent leakage from the tailing dams as the source of the problem’. Despite 24-hour police surveillance, the polythene pond liner was regularly stolen, leading to seepages. In October 2009, President Kikwete said he ‘would ask the minister [for Energy and Minerals] to allocate new prospecting areas to artisan miners from the villages surrounding NMGM. He said this was part of government efforts to find lasting solutions for problems communities surrounding the mine faced.’ In the same month, the Dow Jones Sustainability World Index ranked Barrick as a ‘top performer in CSR worldwide for the second consecutive year’.

In November, the Canadian Globe and Mail reported that Barrick were planning to sell the NMGM, leading to civil society demands that they should not be allowed to do so before the environmental and social issues had been resolved. Barrick denied they intended to close the mine.

In December, an NMGM spokesman estimated that 200-300 illegal miners from the 13 villages in the area, grouped in 3-5 men gangs, trespassed on the mine every day. These gangs took ore to extract gold with mercury. He said that NMGM had lost up to USD 25m of property and gold ore to this ‘vandalism’. He said: ‘The efforts to stave off these small-scale miners by force have worsened the friction. …’ A PR officer ‘said the investor had poured a huge amount of money into security in a bid to curb losses incurred through … endemic smuggling and vandalism.’ ‘...this is impacting on its profits and compromising all efforts to support local community development projects’. The police were accused of aiding thieves and vandals. Weeks earlier ‘police shot dead seven youths who had allegedly trespassed into the mine, sparking a public outcry over “excessive use of force”’.

Sources: Mugini 2008, 2009; Thisday reporter 2008a; Mgamba 2010; Lissu (no date); Agencies 2009; Thisday reporter 2009a; Citizen reporter 2009b; Guardian reporter 2009; Mwita 2009.

The mining companies believe that addressing these local conflicts will establish their legitimacy among the local population, reducing the costs of policing their property and replacing machinery destroyed by rioters and arsonists. To avoid confrontations with villagers, NMGM built over 150 houses for villagers who agreed to vacate the mine area, spending nearly TShs 3.5 billion on relocating families. Barrick also invested in health facilities, schools, and scholarships, and planned to upgrade artisanal to small-scale mining (Mapalala, 2009).
Between 1997 and 2007, the major mining companies spent nearly USD 36 million on corporate social investment (Mwanyika, 2008).

Mining companies are under increasing pressure to promote local development, either directly or indirectly through local councils or sub-contractors, including NGOs. According to the Tanzania Chamber of Minerals and Energy, between 1999 and 2004, the ‘mining sector’ spent USD 2 million on education projects, USD 2.4 million on health projects, and USD 7.6 million on water projects. Despite the rise of ‘Corporate Social Responsibility’, opinions are divided as to whether mining companies should or should not get involved in service provision. For example: ‘We are not operating as charitable organisations but business enterprises that … should post profit to shareholders’ (Spencer, quoted in Cooksey, 2008: 14). On the other hand, ‘the fostering of strong community relationships and partnerships is critical if the local social and economic impacts of the mines are to be deepened further. … It is difficult for a mining company working in isolation to achieve success in this area …’ (ICMM, 2009: 9).

Licensing and regulation

In a previous sub-section we explained the symbiotic link between gold mining and gold exploration. In a typical mining jurisdiction, most exploration is undertaken by relatively small (‘junior’) companies, who plan to sell on their more promising finds to mining companies or enter into joint ventures with (mostly) foreign partners. The amount of exploration they do is determined largely by the expected profitability of current large-scale mining and by the regulatory performance of the Mining Division (MD) in the MEM. In this section we examine the latter, arguing that the costs and uncertainty of obtaining prospecting licenses is a major negative aspect of the business climate.

According to our informants, systemic rent scraping in the Mining Division has compromised efficient exploration for exploitable gold resources. In the words of one interviewee, ‘Everybody is on the take’ (Interviewee A). One source noted that ‘employees of the Mining Division demand bribes in order to issue mining or prospecting licences.’ Officials in the Mining Division also own mineral rights. It is quite common for a company to request a licence for a particular location, only to be told subsequently that it had ‘already been allocated’ to someone else. Another insider ploy is to leak information concerning claim applications so that areas surrounding a new claim are immediately snapped up by speculators. In this way, free riders benefit from the investments of serious gold exploration and mining companies.

Prospecting Licenses are time-bound and come with obligations to invest minimum amounts in exploration. Delays in awarding PLs reduce the effective period during which investments are to take place. Prospecting Licenses are supposed to be revoked if their owners fail to

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107 Mining companies now pay USD 200,000 a year to district councils in the areas where they operate. These (by local standards substantial) funds may or may not be put to good use.

108 Tanzania Chamber of Minerals and Energy 2005. The water ‘projects’ included linking villagers to pipelines bring water to the mines. Total ‘corporate social investments’ were over USD 36 million between 1998 and 2008.


110 According to the Fraser Institute report for 2007/08 (2008: 28): ‘There is blatant bribery in Tanzania where best efforts are thwarted by officials back-dating licence applications.’ This is a quote from the Vice President of an exploration company.

111 An ‘experiment’ by a mining explorer demonstrated this effect in practice when his company applied for an exploration licence more or less at random. Almost immediately, all the adjacent blocks were allocated (Interviewee A).
invest in exploration within a certain time, and half the claim is supposed to be returned to the Mining Division after a three-year exploration period. But this does not happen to insiders: it is common for claims to remain ‘sterilised’ for protracted periods while no fees are paid or exploration undertaken. An investor has to reapply for the part of an exploration area returned after it expires, but collusion at the national and zonal levels results in reallocation of Prospecting Licences and the loss of capital invested by gold exploration and mining companies. Lastly, since different licences are allocated by different offices (in Dar es Salaam, Dodoma and Zonal Mining Offices) it is quite common for an exploration company in the course of exploration to come across small-scale miners with valid Primary Mining Licenses within the area covered by the exploration licence.

These and other regulatory obstacles help explain why there are only about 30 junior explorers in Tanzania instead of 200 or more and why there are no medium-sized gold mines when there should be up to 200 (Spencer, 2008). Most of the prospecting rights in the LVGA are owned by a small number of big players. One of these is Tanzania Royalty Exploration Corporation, a listed Canadian company which holds 121 prospecting licences covering nearly 11,000 sq. km. of the Lake Victoria Greenstone Belt. Other major licence holders are companies owned by the Rupia family and businessman Reginald Mengi.

The Government of Tanzania has not been successful in ‘putting in place a strong institutional mechanism – building capacity to administer, regulate and facilitate [the] development of the industry’ as envisaged in the 1997 Minerals Policy (Mwanyika 2008, slide 6). As we have seen, the Mining Division did not radically improve its performance when the big investment boom in exploration and mining occurred in the mid- to late-1990s. One interviewee maintained that the Mining Division was simply swamped by the additional workload following the rapid increase in interest in exploration and mining during this period (Interviewee D, 08/12/09). Yet external pressures to make the process of obtaining exploration rights more transparent were actively resisted by the bureaucracy, since more transparency would make rent-seeking more difficult.

Nor did the Government of Tanzania improve the infrastructure required to support the mining industry. Poor roads, railways and power supply continue to compromise potential investments, including the huge Kabanga nickel project in Kagera, a joint venture between Barrick and its fellow Canadian company XSTRATA (Interview K, 18/01/10).

Tax assessment

While the price of gold is the main global determinant of gold exploration and mining profitability, the number and level of taxes are the main drivers of profits in a given jurisdiction. We saw in a previous section that a favourable climate for investment in Tanzanian mining was created partly with the help of generous tax breaks.

The tax regime in place is only as effective as its administration, however. Tax policy in Tanzania, as we have seen in previous sections, is administered by the Tanzania Revenue

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112 Joseph Kahama, son of George Kahama, is Director and President of Tanzania Royalty. James Sinclair, formerly of Sutton Resources, is the principal shareholder.
113 Paul Rupia is a retired First Secretary and businessman whose family hails from Shinyanga and has been involved in mining for many years.
114 The total investment to date is USD 200 million. Since the nickel concentrate will have to be processed in Canada (a 20,000+ mile journey) the project will depend on Tanzania investing promptly in a planned railway line. Grid power will also have to be supplied. Neutral observers see little chance of Kabanga becoming a mine any time soon.
Authority. The TRA’s performance was widely criticized by our respondents. It was argued that TRA officials ignore the tax conditions contained in different MDAs.\textsuperscript{115} TRA also routinely ignore responses and challenges to tax assessments. Disputes drag on for months and years, with mining companies receiving only oral replies. One respondent described receiving ‘ridiculous’ assessments (Interview D). A major source of conflict is TRA’s insistence that VAT exemptions are for imported inputs, but cannot be enjoyed by mining subcontractors.\textsuperscript{116} The process of taking disputes to the Tax Revenue Appeals Board, the Tax Tribunal, and finally the Appeal Court is lengthy and unpredictable (the latter can take ‘years’ to make a decision). A favourable decision by the Appeals Board may be reversed by the Tax Tribunal if TRA appeals. Evidence abounds of TRA employees using their authority to make illegal demands (extortion) whose successful challenge would cost too much and take too long and are therefore acceded to.\textsuperscript{117}

The slow processing of tax claims means in effect that the mining companies give large, tax-free loans to TRA.\textsuperscript{118} Widespread corruption in TRA has also been flagged as a problem by less self-interested parties than gold mining companies.\textsuperscript{119}

More worrying for mining companies than the number of taxes or levels of taxation, is the arbitrary administration of tax laws. These inefficiencies can have a serious impact on profitability. For example, Resolute’s Golden Pride mine, which is now nearing the end of its life, has yet to turn a profit. As well as security problems, already discussed, the problems are partly geological and partly the result of adverse global conditions. However, taxation issues, as Box 7 describes, have also played a role.

\begin{footnotesize}
\textsuperscript{115} MDAs are not recognised by TRA because they are not the subject of parliamentary scrutiny, unlike tax rates, which are.
\textsuperscript{116} It is common practice to subcontract the actual mining to specialist companies.
\textsuperscript{117} Meeting of British Business Group; British High Commissioner’s Residence, 9 October 2008.
\textsuperscript{118} This problem is not of recent origin. Writing in 2002, Phillips et al. observed: ‘Chief among the problems was poor administration of a VAT drawback scheme applicable to items that, by law, are exempt from duty during the initial construction phase of a mine. TRA had failed to credit or reimburse several millions of dollars in VAT refunds, tying up the capital needed for construction and occasioning high interest charges.’ (Phillips et al., 2001: 5).
\textsuperscript{119} ‘… TRA officers … have discretion over important decisions … related to the determination of tax liabilities (assessments), selection of audits, litigation, … Many administrative procedures, including … reporting tax revenues, could be more transparent. Firms report that over-assessment of tax liabilities is common, followed by ‘negotiations’ between the tax officer(s). This is compounded by a general lack of specific sector expertise within the TRA. … With the exception of the larger enterprises, taxpayers continue to experience … claims for bribes…’ (Foreign Investment Advisory Service, 2006: 101-2; emphasis added; cited by Policy Forum, 2009b).
\end{footnotesize}
Box 7: Resolute’s 12-year profit and loss account

The MDA for Resolute Tanzania’s Golden Pride mine in Nzega, Tabora Region was signed in 1997, and the mine was opened in November 1998. Golden Pride was initially a joint venture between Resolute Ltd. (Australia), Samax Resources Ltd. (Britain), Resolute Tanzania Ltd and Mabangu Ltd. Golden Pride had estimated gold reserves of 2.7 million ounces. Resolute invested USD 48 million in developing the mine. In 1998, Ashanti Goldfields acquired Samax, who owned 50% of Golden Pride. The following year, Resolute bought Ashanti’s 50 % share. By 2002, the company had produced some 650,000 ounces of gold worth approximately USD 180 million. The mine produced 44 tonnes of gold between 1998 and 2008. In February 2008, Resolute purchased Lamgold’s 34% equity stake in the Nyakafuru joint venture, giving the company 100% of the main Nyakafuru Reefs resource.

But Golden Pride has not proved as profitable an investment as originally hoped. As of October 2009, no dividends had been paid to shareholders. A combination of external and internal factors more than offset the boost to income through gold price increases. (1) Although many costs are incurred in USDs, the more than 50% depreciation of the Australian dollar had a serious impact on financial returns. (2) It also proved more expensive to mine the (quite low-grade: 1-2.5 grams per tonne) ore body than had been expected, costing up to USD700 to produce an ounce of gold. (Costs were USD449 an ounce in 2008). Lastly, (3) Resolute have experienced major protracted disputes with TRA over delayed and contested VAT repayments and fuel taxes, totalling well over USD20 million USDs (and counting, given accumulating interest and legal payments). Resolute’s view is that TRA’s reasons for refusing to repay VAT payments are frivolous and arbitrary. A decision made by one official may be reversed by his successor. Arbitrators and law courts are considered biased. Resolute were a major beneficiary of the 15% additional development capital allowance discussed in the text. Without this tax break, Golden Pride would have been an even more disappointing investment.

Source: www.resolute-ltd.com.au.; interview D.

Despite promising finds as recent as 2007, Resolute – the third largest gold mining operation in Tanzania – failed to find additional deposits that could be mined economically, and are planning to close Golden Pride in the next 1-2 years. Their major complaint has been with TRA, whose officials are widely accused of extortion, arbitrariness in tax assessments, technical incompetence, and sloth. In 2008, a top Resolute official lobbied the President over the tax issue, and the Minister of Energy and Minerals is quoted as saying: ‘let the law take its course’. Resolute consider the government ‘unhelpful and untrustworthy’ (Interviewee D).

5.4 Doing business in Tanzanian gold mining: formal versus informal approaches

In this section we examine approaches to doing business in the Tanzanian gold mining sector. As we have seen, conventional wisdom on the investment climate recommends strengthening formal regulatory frameworks as part of a wider project of rule-based governance, and there is some evidence that the initial boom in gold mining investment was assisted by this approach. However, there is also evidence that more informal, relationship-based governance was at least as important in securing some of the commitments investors

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120 When it was announced in 2006 that Golden Pride was going to close, Prime Minister Edward Lowassa called Resolute ‘a bunch of thieves’.
desired. Unfortunately – from the point of view of the business and investment climate – neither formal guarantees nor informal approaches have been sufficient to sustain those commitments. Instead, the investment climate has been undermined by a combination of formal civil society activism and informal rent-seeking practices.

The story starts, as we have already seen, in the late 1980s when Tanzanian leaders, under the tutelage of the World Bank, opted to pursue a pro-private investment policy. In 1990 the Investment Promotion Centre was set up, which later became the Tanzanian Investment Centre (Kahama, 2010: 127). These offered a number of services and incentives to potential investors. When combined with promising geological data and a buoyant international price for gold, these initiatives stimulated the signing of three Mining Development Agreements between foreign investors and the state in the mid-1990s.

The MDAs were formally negotiated by teams representing the foreign companies and a team representing the Government. As might be expected, they contained a variety of clauses regarding ownership, taxes, profits, and personnel, such as a foreign investor in a risky sector coming to a country for the first time might expect. As we have seen, these commitments were not unusual from a global point of view, with one exception: a clause providing for 15% additional tax deductions, over and above total capital outlays. Resolute, Afrika Mashariki, Barrick, and AGA all benefited from this clause, which may have been worth $30 million a year to Barrick alone.

The story of how the 15% deduction came to be inserted into the Mining Development Agreements and later into the 1997 Financial Laws Act, sheds some interesting light on the politics of the mining sector in Tanzania. According to our sources this clause was not discussed during the formal negotiations, nor was it in the MDAs that were signed by the parties. The clause was apparently the brainchild of the Government of Tanzania’s external advisor, who recommended it as an added boost to FDI. Commissioner for Minerals Peter Kafumu was later to say that, ‘this clause was put in the contracts as incentive to attract investors through advice from World Bank [sic]’ (Curtis and Lissu, 2008: 28). Behind the scenes SAMAX, a British mining company, appears to have lobbied hard for it. But because the MDAs had already been signed before the clause’s insertion, there is good reason to think it was inessential to stimulating at least the first round of investments. Indeed, negotiators from the Tanzanian side were shocked, and suspected that corruption was involved. Whether or not this was so, the process lacked transparency, and only later did the 15% deduction take political centre stage.

The next step in consolidating this positive climate for investment was securing effective control over property rights at mining sites. Here we return to the topic of mine clearances at Bulyanhulu. Readers will recall that in the vanguard of wresting control from small miners was Sutton Resources (see Box 8). The story of how it did so confirms our hunch that informal, unconventional strategies, rather than a formal, rule-of-law approach to property rights, were crucial in creating a conducive climate for foreign investment, at least in its initial stages.

**Box 8: Sutton Resources’ human resources**

Founded in 1979, Vancouver-based Sutton Resources Ltd was a junior mineral exploration and mining company quoted on the New York Stock Exchange. Most of its properties were in North America. In 1996, it held interests in Tanzania, Guyana, the USA and Canada. None of its properties were in commercial production. In May 1999, Sutton was acquired by Barrick Gold in a hostile takeover for nearly USD300m.
James Sinclair, Suttons’ founder and one-time Chairman, is a high-profile entrepreneur and writer on international investment issues. In 1996 Sinclair co-authored ‘BOOM: Visions and Insights for Creating Wealth in the 21st Century’. ‘BOOM’ (Vogl and Sinclair, 1996) is described as a ‘landmark book on globalisation’, promoting neo-liberalism with an ethical dimension. Frank Vogl, the book’s co-author, is a one-time Board Director of Sutton and a former World Bank staff member. Vogl is also founder of Vogl Communications Inc., co-founder and board member of Transparency International (TI). During the review period he advised TI in its efforts to support President Mkapa’s anti-corruption strategy (1996-7) while also lobbying for Sutton. Vogl Communications tendered (unsuccessfully) for a contract to help popularise the privatisation of Tanzanian state corporations.

While James Sinclair was said to be close to President Mkapa, both Sinclair and Vogl were friends of Sir George Kahama, the first Director General of the Investment Promotion Centre. Sinclair, one of the ‘doves’ at Sutton, was ousted as Chair by his more hawkish board in December 1995 (the Board blamed him for the slow progress at Bulyanhulu). After his ouster, Sinclair retained his interest in Tanzania through Tanzania Royalty Exploration Corporation, a listed Canadian company which holds 121 prospecting licences covering nearly 11,000 sq. km. of the Lake Victoria Greenstone Belt. Kahama’s son Joseph Kahama is Director and President of Tanzania Royalty. His responsibilities include ‘maintaining good relations with government, vendors, and the Company’s various business partners in Tanzania.’ Rancanelli (2008) paints a highly unflattering picture of Tanzania Royalty.

Sources: Canadian Securities Administrators www.sedar.com
AEI Speakers Bureau www.aeispeakers.com/
Tanzania Royalty Exploration Corporation www.tanzanianroyaltyexploration.com/
Mining Watch Canada www.miningwatch.ca/
Rancanelli article www.usrarecoininvestments.com/
Vogl (personal communications)

Part of the reason why a rule of law approach was eschewed at Bulyanhulu was that the legal situation on the ground was a complex one, and symptomatic of the confusion that surrounds property rights in Tanzania generally. Although the Government of Tanzania legally owned the underground minerals at the site, minerals which it had ostensibly given Sutton the right to exploit in its Mining Development Agreement,121 there were nevertheless competing claims. Shinyanga Region had been designated as an area for small miners by Ministerial decree in 1980. Then during the 1990s, many prospecting licences were taken out in promising (‘prospective’) mining areas for speculative purposes, particularly when the interests of big mining companies in developing a significant mine became known. In 1994, the MEM granted 132 prospecting licences, rising to 192 in 1996 and a record 351 in 1997.122 But Sutton was not interested in any real or bogus claim holders at Bulyanhulu, and simply declared all small miners ‘illegals’. In addition, under Tanzanian law it was possible that miners occupying Bulyanhulu would be entitled to be compensated for any ‘improvements’ they had made to the land. Again, by declaring small miners ‘illegals’, Sutton determined that eviction not compensation would be the order of the day.123

The Government, however, provided only wavering support for Sutton in the first instance. The stand-off over mining rights coincided with the 1995 presidential elections. In July 1995, a

121 Lissu claims that Sutton’s claim to Bulyanhulu was legally doubtful (Lissu, no date, Ch 3: 3).
122 We cannot say what proportion of Prospecting Licenses were speculative as opposed to foreign direct investment-related.
123 Note that Sutton’s Chairman in 1995, James Sinclair, appears to have been in favour of a compensation strategy. Less enthusiastic were his Board, and, perhaps curiously, the Tanzanian government.
few months before the elections, Prime Minister Cleopa Msuya visited Bulyanhulu and is quoted as saying that ‘the government [recognized] the importance of both the small-scale and large-scale miners’. He gave the miners and KMCL a two-week ultimatum ‘to sit together and find an amicable solution to the conflict or else the government [will] be forced to intervene and impose its own solution’. Then a week before the presidential and parliamentary elections, ‘(the) CCM deputy campaign (manager) issued a press release saying (that) presidential candidate Mkapa would back small-scale miners at Bulyanhulu’. The Canadian High Commissioner reported to Ottawa that ‘Mkapa began to speak of support to small-scale miners in terms of equipment and training’ (Lissu, no date, Ch 3: 9).

After Benjamin Mkapa had won the election, the picture began to change. Whatever he might have said to small miners at Bulyanhulu before he came to office, once ensconced he was intent on re-establishing ‘donor confidence’ after a number of major scandals had undermined aid flows in the second half of the Mwinyi regime. This he accomplished by launching a ‘war’ on corruption and by aggressively pursuing donor-driven liberalisation policies designed to attract foreign investment. Mkapa was seen as being ‘more in tune with the changing times and more amenable to the needs and interests of foreign capital’ (Lissu no date, Ch 3: 10).

With more experience as a civil servant and diplomat than politician – he was a former Tanzanian High Commissioner to Canada – Mkapa was not beholden to populist tendencies within the ruling party. Having unsuccessfully lobbied the Mwinyi cabinet in 1994-95, the Canadians set about wooing Mkapa and senior officials, including the Minister of Finance Prof. Simon Mbiliyin, Minister of Energy and Minerals Dr. William Shija and Minister of Planning Dr Abdallah Kigoda (Lissu no date, Ch 3: 10). The Canadian High Commissioner and the new Chairman of Sutton, Dr. Roman Shklanka, met the new President in April, 1996, when they portrayed the growing tensions between Sutton and the Bulyanhulu miners as requiring the Government of Tanzania to protect Canadian citizens’ safety, as well as, of course, Canadian commercial interests. There are definite signs here of what Abdel-Latif and Schmitz (2009) refer to as relationship-based governance, in which informal interactions based on social or professional background lead to a perception of common interest between policy-makers and investors. This perception then drives what they call ‘proxy governance’ in the interests of specific investors or the sector as a whole.

In spite of this, the government continued to prevaricate over supporting Sutton's bid for mining rights – which would mean removing the local miners by force if necessary – and relations between Sutton employees and local miners became increasingly tense (Lissu, no date, Ch 3: 4). Although the miners’ representatives seemed willing to negotiate over compensation, Sutton was not. Instead, it attempted to oust the ‘illegals’ through the law courts. As we have seen, this proved unsuccessful, and as 1996 progressed the company and the Canadian High Commissioner doubled their efforts to get the reluctant Tanzanian government to clear the ‘illegals’ from the mine.

Sutton finally prevailed in the stand-off with Bulyanhulu miners in early August 1996, when the Shinyanga Regional Commissioner ignored a court injunction ordering the evictions to

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124 The CCM election manifesto is the source of the candidate’s promises.
125 There were generally not more than four Canadians in Bulyanhulu at the time, one of whom was ‘attacked’ by a local miner. One version of the story is that he threw a punch at the Canadian, the CHC version is that he drew a knife.
126 Though the content of the exchanges between the Canadian High Commissioner and President Mkapa has been heavily censored, it is clear that she stressed the likely interest of other Canadian mining companies in investing in Tanzania, but that ‘investor confidence’ had been undermined by the events examined above.
stop on the grounds that the two sides still had a case _sub judice._ Word of the injunction had encouraged jubilant miners, who were already resigned to leaving, to go back to their pits. The RC’s order to continue with the evictions led to violence and death, and, as we have seen, claims that Sutton’s bulldozers had buried as many as 54 miners alive (Lissu, no date, Ch 3: 1).127

Through these actions a process of informal, extra-legal politics had finally triumphed in transferring natural resource assets to foreign private capital, an instance of primitive accumulation that flies in the face of conventional wisdom about best practice on the investment climate.

Sutton’s triumph at Bulyanhulu persuaded other big investors that the state was serious about transferring assets to mining companies, and over the next five years several mines came on stream. However, the way in which these assets were transferred, against the interests of local communities, sometimes in the face of the law, and sometimes employing violence and human rights abuses, contributed to a groundswell of negative opinion towards foreign mining companies. As we saw in a previous section, civil society NGOs and in particular LEAT have been at the forefront of creating and sustaining this adverse reaction. Ironically, these NGOs are themselves largely the product of donor efforts to strengthen civil society in another aspect of the ‘good governance’ agenda. The same can be said about Tanzania’s relatively free press, which, as we have seen, has provided a stream of critical commentary to keep the mining issue alive.

By 2010, an election year, the pressure on government had grown so strong that a new mining law was drafted. At this stage the Tanzanian Chamber of Minerals and Energy (TCME) and individual mining companies embarked on a sustained attempt to lobby the government over the proposed Act, but their arguments fell on deaf ears.128 In a press release, the TCME stated that the new Mining Act ‘carries fundamental weaknesses and concerns that are bound to hold back the growth and development of a sustainable and competitive mining industry in Tanzania.’ The Bill ‘fails to appreciate’ that to ‘become the preferred destination for mineral exploration and investment’ Tanzania needs to become ‘significantly competitive vis-à-vis other countries’ mining jurisdictions’ (Interview H, 10/12/09; Thisday reporter, 2008).129 In the view of gold exploration and mining industry insiders the Act meant that Tanzania could no longer expect to attract significant investments in exploration and mining. On the contrary, the Act is likely to accelerate the exodus of exploration and mining companies.

To some extent the mining companies, by securing control over property through opaque and extra-legal means, had made a rod for their own backs. The way that Sutton and the government chose to enforce mining rights at Bulyanhulu, for example, would have made big mining unpopular in almost any society. However, in many other developing countries, either the press and civil society are so constrained, or the political elite is so committed to an

127 Amnesty International subsequently accused the Government of Tanzania of the ‘extra-judicial execution’ of over 50 miners. Barrick contends that the reports of burials were ‘invented’ by Mallim Kadau, chairman of the Miners’ Committee, and that activist Tundu Lissu was motivated by ‘political opportunism’. (Lissu is a member of the opposition CHADEMA party and became an MP in the 2010 elections). Furthermore, both Barrick and the CHC accuse the Bulyanhulu Miners’ Committee of attempting to extort money both from the small-scale miners and from Kahama (Kerr, no date). A 2002 report by the World Bank’s Compliance Advisor concluded that no evidence to support the allegation existed.

128 At the 2009 annual dinner of the Chamber of Minerals and Energy, Chairman Ami Mpungwe told the Minister of Energy and Minerals William Ngeleja that ‘This long policy review and consultations are risking to making (sic) our country an unstable and unpredictable investment environment for [the] mining industry’ (Alipo, 2009).

129 In all, the tax expert provided 26 critical comments on the Committee’s report.
alliance with foreign capital, that this unpopularity hardly makes a difference. But in Tanzania this was not so. Criticism of foreign mining companies tapped into a deep reservoir of indigenous hostility to foreign ownership and ambivalence toward private capital that dates back to the colonial period.

Here it is useful to say a few words about the political culture of Tanzania. Most Tanzanians, including high-level politicians and bureaucrats, find it difficult to ally themselves enthusiastically with a liberal-capitalist development ideology. Historically, Tanzanians, like most Africans, retain a memory, now mostly a folk memory, of the worst excesses of colonialism. It is the prospect of entrusting part of ‘our’ national heritage to untrustworthy ‘foreigners’, mostly from former British white colonies (Canada and Australia), and from South Africa and Zimbabwe, that sticks in the collective throat. This discomfort is of course also related to decades of anti-capitalist rhetoric espoused by Julius Nyerere under his philosophy of African socialism or ujamaa. Many among Tanzania’s elite clung to this rhetoric even in the 1980s when the actual structures of ujamaa were collapsing all around them, and when they were themselves vigorously engaged in opportunist rent-seeking and petty-bourgeois business pursuits.

History and ideology also help us understand the lack of trust that Tanzanians exhibit in regard to foreigners, including investors, documented above. Many Tanzanians, including the educated elite, continue to view Europe and the United States as the source of (much/most of) Africa’s/Tanzania’s problems, from the slave trade and colonialism to date. Traces of the ‘hidden’ elements of nationalism and race contained in the ideology of socialism and self-reliance remain even after the component of socialism-as-state-ownership has been excised. The Tanzanian elite’s queasiness about foreign capital perhaps helps also explain why it has done so little to facilitate its operation. As we saw in a previous section, the key ministries charged with regulating the gold mining sector are suffused by poor capacity and opportunistic rent-scraping. We shall have more to say about this in our next section, which examines the structure of rent-management in the gold mining industry.

5.5 The structure of rent-management in Tanzanian gold mining

Tanzanian gold mining is a sector that is potentially rich in natural resource rents. As such, it generates intense rent-seeking processes, which need to be managed if their developmental potential is to be realized. This section examines the evolution of the rent-management process in Tanzania. It argues that the Mwinyi and Mkapa eras both witnessed attempts to centralize and coordinate the management of gold rents, but that these ultimately failed, undermined, among other things, by the presence of grand and petty corruption, and election pressures.

We saw in our section on the history and characteristics of gold mining in Tanzania, that between about 1970 and 1985, the state was unable effectively to exploit gold resources, which came to be dominated by small-scale producers, most of whom smuggled gold out of the country. Natural resource rents accruing to producers appear to have been outside the control of the top leadership, and thus it seems fair to say that rent management was decentralised during this period.

During President Mwinyi’s tenure in office, there was an effort to centralize rent management. At first, with the 1990 decision to buy gold officially at black market prices, this took the form of encouraging small-scale producers to sell their gold to the state. This was a partial success in terms of reducing smuggling, but by 1994 the bank’s buying procedures and the price...
offered could not compete with those of illegal buyers.’ An estimated 70-85% of gold continued to be smuggled out of the country (Tan Discovery, 1997: 17). The tax loss is difficult to estimate. However, if this were a single open pit mining company, the total tax loss would be of the order of USD 25 million a year under the 2006 tax regime, or some USD 500 million over the 20 years of market liberalisation.130

Gold smugglers, we suggest, formed part of the pro-small-scale mining lobby during the first half of the 1990s. The small-scale mining lobby in Bulyanhulu and elsewhere represented the interests of a local ‘petty bourgeois’ class of mine owners and gold traders. The central government was sending mixed messages to them. As we have seen, encouraged by the Government, Bulyanhulu Miners Committee sent an official application for prospecting and mining rights on behalf of local claim holders to the Ministry of Water, Energy and Minerals, but the application was ignored. This suggested a nascent conflict over the ownership of rents between CCM/Mwinyi and pro-FDI supporters in the government. Indeed, behind the scenes, government officials had already entered into agreements with foreign companies to centralize rents, a process that came to fruition under the Mkapa regime.

Mkapa embraced the view that facilitating FDI in modern mining would have major economic benefits in terms of FDI, multiplier effects on the national economy, technology and skills acquisition, tax receipts and foreign exchange earnings. Mining policy during the Mkapa era can thus be seen as an attempt by a clique within the state to centralize (and grow) rents, dividing them between the state and a few large companies. As we have seen, the land clearances at Bulyanhulu and the subsequent opening of new mines signaled some early successes of this policy. According to Mwanyika (2008), the formal Tanzanian mining sector paid USD 428 million in statutory taxes and other contributions between 1997 and 2007.131 However, the centralization of mining rents was later to be undermined by a combination of grand and petty corruption, together with short-term election pressures.

First, petty corruption. We saw in an earlier section that the Mining Division is mired in petty rent scraping. We discussed private predation in relation to the Mining Division allocation and renewal of exploration licences. The ‘theft’ involved is mediated by the Mining Division and the resultant rents divided between the two sides. It is not possible to quantify the rents generated by this process, but it is probable that the effect on the extent and efficiency of gold exploration (and thus mining down the line) is high, and therefore highly damaging from a gold exploration and mining perspective. We have argued that the ‘missing middle’ of small-to medium-sized, capital-intensive mines is in part the result of this type of predation, both through ‘sterilisation’ of potential mining areas and through the increased risks involved in accessing and retaining mining rights.

Senior politicians, government officials and businessmen and women are involved in gold exploration and mining speculation.132 Middlemen introduce potential investors to the owners of promising Primary Licenses, which may be bought or used as the basis for a joint venture.133 Interviews and anecdotal evidence suggest that top officials are involved in these rent-seeking networks. ‘The commissioner was one of those thought to be seriously

130 That is, from 1986 to 2006. Results of a model developed by (Spencer, 2008). This is a conservative estimate.

131 Mwanyika 2008. Claims that the foreign mining companies were paying too little tax reflected the tax write-offs in the first years of production. Total tax take is increasing as mines begin to pay corporate tax.

132 Wilson Mutagawaba, a mining engineer, was quoted as saying: ‘not many people know that 70 per cent percent of licences are in the hands of locals. The problem ... is that most of their owners are hawkers and middlemen waiting to sell them for a quick buck’ (Sebastian, 2008).

133 Interviewee A showed the author a cell phone message recently received from someone offering his brokerage services, saying he was ‘well connected’ with the MEM.
bedevilled by perpetual corruption involving the operation of both the big and small mining companies in the country’ (Citizen reporter, 2006). Ministerial politicking meant that after he was moved in November 2004, his post went unfulfilled for two years.

Another common practice is the predation of employees on their own company through corrupt tendering and procurement, with a negative impact on profitability. This is difficult for major contracts where prices and procedures are transparent. However, for smaller contracts tender manipulation is quite easy and probably a frequent occurrence. State predation includes widespread rent-scraping, as discussed above. An assessment of official rent-scraping by Barrick’s General Manager is worth quoting:

‘Barrick strongly discourages its employees from making expediting payments and we will continue to work hard towards eliminating them, the reality is that we operate in a challenging environment and bureaucrats and other government officials sometimes demand direct or indirect payments, whether in cash, presents or lavish entertainment to do their job. ... in countries where resistance [to demand for bribes] is futile and important business interests are at stake, there may be no choice but to raise issues with the top most authorities to ensure ethics and code (sic) prevail’.

Another organization bedevilled by rent-scraping is, as we have seen, the Tanzania Revenue Authority. It is possible that TRA predation has higher-level linkages, but it is also possible that (most?) predation is decentralised and uncoordinated. It should be in the interests of the ruling coalition to sanction rent-scraping in TRA in order to reduce unpredictability and transaction costs and increase the level of tax compliance. The same argument can be made for rent-scraping in the allocation of exploration and mining licences within MEM, which also appears not to be coordinated at a higher level.

In both cases (TRA and MEM) the consequences of uncoordinated official rent-scraping are extremely costly from the point of view of gold exploration and mining companies and the growth of the modern mining industry. Gold exploration and mining lobbyists regularly point out these grave business-constraining consequences of state predation to top officials – the Tanzanian President, the Prime Minister, the Minister of Energy and Minerals, and the Commissioner for Minerals – who express concern and promise to look into the issue. Thereafter nothing (usually) happens to resolve the problem, reflecting the breakdown of the principal-agent chain. This demonstrates the radical decentralisation of rent-seeking within the Tanzanian state apparatus.

Grand corruption does not appear to be much more tightly centralized. Two examples stand out. One concerns the Alex Stewart affair, the other, Meremeta Ltd. Alex Stewart concerned the award of a tender to audit the gold mining sector to a US company that had no experience of this kind of auditing. Detailed below, the audit eventually cost the Treasury over USD 70...
million, with zero direct benefits in terms of revealing tax evasion or fraud by the large mining companies.\textsuperscript{138}

**Box 9: Alex Stewart Assayers**

In 2003, the Bank of Tanzania (BOT) hired Alex Stewart (Assayers), (ASA) a US company, to audit gold production and export. The company received a fee of 1.9\% of the marketed value of the audited gold exports (the gold royalty), leaving 1.1\% of the 3\% royalty for the BOT. Alex Stewart also enjoyed tax free status granted by the Minister of Finance, Basil Mramba. The royalties were worth USD 0.75m a month. For its first two-year contract the company netted USD 18m tax free (TShs 23 billion) and a total of USD 31m between 2003 and 2006.

In late 2006, Alex Stewart presented an audit report to the BOT but the report was never endorsed by BOT or made public, and its recommendations were not acted upon. The report claimed that the mining companies overstated their liabilities by over USD 500 million, leading the country to lose revenues of USD 133 million. It also claimed that, because the mining companies could not supply original paperwork going back 14 years to justify their capital and operating costs, they were fraudulent; and that the companies’ auditors were party to the fraud. Alex Stewart’s Chairman Dr Enrique Segura is quoted as saying that ‘Tanzania could get 30 times more revenue from the mining companies in income tax than it has hitherto been doing’.

Mining interests discounted these claims on the grounds that Alex Stewart had no experience of auditing foreign mining companies, had no understanding of metallurgical accounting and its limitations, called for original documentation beyond the Tanzanian statutory time limitation, and disregarded the work of better resourced and more experienced international auditors. Moreover, the audited companies had never been presented with the draft audit for their responses, as is normal practice.

Lobbying to renew the ASA contract towards the end of President Mkapa’s time in office was thwarted. At the time of writing, Mr Mramba and others are facing criminal charges in relation to the Alex Stewart contract. Godwin N Hizza, a witness in the trial, said that President Mkapa ‘allowed’ the BOT to expedite the process of hiring ASA in the absence of a formal tender process.

**Sources:** Kisaka (2006); Lyimo (2006); SID (2009).

Meremeta, as we have already seen in Section 3, was a company created by the Tanzanian Ministry of Defence to buy gold. Box 10 charts its rise and fall.

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\textsuperscript{138} Given the widespread antipathy towards the foreign mining companies, it is likely that any hard evidence of tax fraud would have resulted in prosecution, but there have been none to date.
Box 10: Meremeta Ltd

Meremeta Ltd was a 50-50 joint venture between the Tanzanian Ministry of Defence and a South African company Triennex (formerly Executive Outcomes). Registered in 1998, Meremeta bought gold from small-scale miners, beginning in Geita. In 2003, Meremeta began mining at Buhemba Gold Mines, with financial backing from the Bank of Tanzania. Government contingent liabilities relating to Meremeta were highlighted in the 2002 Public Expenditure Review (PER). A non-profit company, Meremeta was designed to generate income from gold exports that could finance military procurement outside the budget while also generating public revenue. According to the PER, the Ministry of Defence incurred debts of USD 130 million for military equipment procured on the strength of Meremeta’s anticipated cash flow. The joint venture collapsed when revenues from gold sales did not materialise and Meremeta was wound up.

As a result of the collapse of Meremeta, the government has incurred large contingent liabilities and foregone considerable potential revenue. In July 2006, BOT audited accounts revealed payments of USD 118.4 million to an unknown account in Nedbank Ltd of South Africa and USD 13.7m to TANGOLD, a company set up to take over Meremeta's liabilities. Meremeta’s initial gold buying initiative in Geita was designed to ‘save small-scale miners from the ruthless middlemen who currently make huge profits through unfair underpayment … and through gold smuggling…’. Meremeta was ‘making arrangements to bring in better small-scale technologies as well as more efficient and environmentally sound and safe gold extraction processes’.

Source URT (1998); Cooksey (2005); Policy Forum (2009a).

Apparently Meremeta was set up after discussions between Presidents Mkapa and Mandela during Mkapa's second term. South African experts were to help the Tanzanian army purchase gold from artisanal and small-scale miners and eliminate smuggling. The involvement of Tanzania’s top military brass in the Meremeta joint venture made it difficult for top MEM officials to know what was going on in a sector which was theoretically their administrative responsibility.

Meremeta went from gold purchasing to mining on its own account but the project became a mine for illicit payments rather than gold. One narrative suggests that Meremeta was hijacked by senior government officials who turned it into a (much?) larger rent-seeking opportunity with a minor political dimension. In this interpretation, Mkapa was no longer a key player as his ‘agents’ (the army, ministers, BoT governor, high bureaucrats) fed him with anodyne information about Meremeta’s activities, and Mkapa was appalled when he learned how much the country had borrowed for the company’s abortive mining venture (commercial borrowing was the subject of IMF debt-relief conditions). TANGOLD was set up to take over Meremeta’s assets and debts, resulting in more dubious transfers during 2005. The popular assumption is that about 80% of rents involving the ruling party are actually realised privately. ‘Coordination’ involved BOT and Treasury officials, the military, the AG and the Minister of MEM. Another shell company – Deep Green Finance Ltd – was set up to ‘dish out kickbacks … resulting from the winding up of … Meremeta and Tangold’. 139

139 Deep Green was established and subsequently wound up by IMMA Advocates with three South African directors and shareholders posing to be ‘subsidiaries’ of Nedbank of South Africa. One of IMMA’s founding partners is Laurence Masha, Minister of Home Affairs during Kikwete’s first term, who claimed that his company ‘was instructed by the government to register and finally wind up its [Deep Green’s] business’ (Guardian on Sunday Team, 2009).
It is also useful at this point to remind ourselves of a third potential example of grand corruption: the signing of the original MDAs for the big mining companies, especially the 15% additional tax write-off. This allowed an extraordinary share of mining rents to be kept by the private sector and exported overseas, where they could bring no benefit to Tanzania. As we have mentioned, many Tanzanians believe that the foreign mining companies bribed their way to such advantageous investment conditions and subsequent profits, and the secrecy surrounding MDAs lends credence to this view (Curtis and Lissu, 2008: 33). In August 2007, an opposition MP attempted to get parliament to investigate ‘the motive behind the decision by the Minister of Energy and Minerals, Nazir Karamagi, to sign the Buzwagi [MDA with Barrick] at a time when the government had declared it would not sign any new agreements’ while a government review was underway (Curtis and Lissu, 2008: 33).

There is no firm evidence that grand corruption helps explain the generous terms of the MDAs and other conditions for foreign mining company investors. However, Curtis and Lissu claim that ‘journalists and activists’ reporting ‘on corruption and mining have been the subject of pressure’, including death threats, police raiding offices and homes, arrests, detentions and charges of sedition (ibid). Whether or not grand corruption was involved, it does appear that the 15% clause was inserted behind the backs of the top leadership, and that it worked against the long-term interests of the investment climate.

Further evidence for the short-term orientation of grand corruption comes from the Alex Stewart audit contract. That this failed to outlive President Mkapa also suggests a ‘transition effect’ from the third to the fourth presidency. The subsequent prosecution of Ministers Mramba and Yona over the contract reinforces the view that temporary alliances rather than long-term informal or institutional relationships underpin corrupt deals like ASA. We conclude that looting in the gold exploration and mining sector is effectively decentralised, in part at least through principal-agent effects (Policy Forum, 2009a; interviews).

These efforts by the Kikwete regime to prosecute officials over the Alex Stewart and Meremeta affairs, together with the attempt in the recent Mining Act to appropriate a greater share of the rents earned from mining, are consistent with a policy of re-centralizing rent-management. The problem with this strategy, however, is that it appears inadequately geared to the long-term, since it seems likely to deter the types of investment that could lead to the future development of the gold mining industry.

140 All but the Geita MDA (October 2007) have been leaked to the press and widely commented on.
141 The MP, Zitto Kabwe, was suspended for accusing Karamagi of lying to parliament over the removal of the 15% capital allowances discussed in the text. Karamagi signed the Buzwagi MDA in a London hotel. He was forced to resign in 2008 in connection with the infamous Richmond affair discussed in the text.
142 Chapter Two of the first draft of Curtis and Lissu (March 2008), was entitled ‘Democracy and Corruption’, the second draft became ‘Democracy and Transparency’ and the text edited appropriately to remove unsubstantiated accusations of corruption. The heading ‘tax evasion’ become ‘alleged tax evasion.’ They cite the discredited Alex Stewart report as their major source of information on tax evasion.
143 Mramba tried – and failed – to renew the ASA contract in 2005. Another example of the ‘transition effect’ is the dubious privatisation of Kiwira coal mine, involving President Mkapa and Daniel Yona. The mine was renationalised in 2009 to pave the way for a large Chinese investment in mining and power generation.
144 Yona reported to the President on behalf of the ASA planners. Evidence presented at the trial showed that AG Andrew Chenge was also involved in the negotiations (Kapama, 2009). A TRA witness said the Treasury PS Gray Mgonja (also on trial) had approached the TRA for an opinion on whether ASA was entitled to tax exemption. TRA said no, but the exemption was granted (Kapama, 2009).
145 Would ASA have survived longer had it produced a less critical report on foreign mining company tax evasion? Probably not. After the critical audit report was leaked (it was never officially endorsed) one mining company official said ASA was “justifying its presence in the country by painting a gloomy picture regarding investors in the gold mining industry.” (Citizen reporters 2005). On Alex Stewart, see http://allafrica.com/stories/200909180592.html.
5.6 Conclusions

In the early 1990s a combination of favourable world prices, promising geological data, and a donor-induced drive to encourage foreign investment led to a gold exploration boom in Tanzania. Shortly thereafter, agreements were made to open several large mines, investors having negotiated conditions that were exceptionally favourable to private enterprise. Subsequently, extra-legal means were used to secure effective control over mining sites. These developments are best understood as an attempt by a clique within the Tanzanian state to centralize and grow the rents available from mining through an alliance with foreign capital.

Unfortunately for both parties, this strategy proved unsustainable. Costs in the mining industry remained high, due in part to the failure of Benjamin Mkapa and his close allies to centralize rent-management in the agencies concerned with mining industry regulation. Added to that, the heavy-handed way in which mining companies secured control of mining sites sparked a vociferous anti-mining campaign by civil society. The political tide began to turn with the election of President Kikwete in 2005, and shifted decisively against foreign interests with the passage of a new Mining Act in 2010, an election year. At stake is a multi-billion dollar industry that should be the lead sector in turning Tanzania into a dynamic and prosperous country.

As such, it is worth reflecting on where things went wrong. With hindsight, it is easy to see that the attempt by a small clique of politicians and donors connected to President Mkapa to build a new development strategy around aggressive foreign direct investment was somewhat heroic, given Tanzania’s history and political culture. Not only do most Tanzanians have deep misgivings about foreign ownership of the economy, thereby making the extremely favourable conditions granted foreign mining controversial, but the forced evictions at Bulyanhulu went very much against the grain of Tanzanian politics, in which a high emphasis is normally placed on consensus and conflict resolution. That a formal World Bank programme failed to clean up corruption and rent-seeking in the Mining Division is also unsurprising, given how entrenched these practices are in most branches of the Tanzanian state. To make matters worse, it appears that once it had secured the legal guarantees it thought it required, the mining industry did little to cultivate informal relations with Tanzanian decision-makers; nor did it do much to help its own public relations. When all these factors are combined with a relatively free press, competitive elections and a donor-protected civil society, it is easy to understand why a ruling party with the mindset of denying any kind of a geographical base to the opposition, should turn so swiftly against foreign mining interests.

Given this, it is worth asking whether the pro-FDI clique could have done anything differently. One strategy might have been to deepen support for the policy among the elite, perhaps by aligning the personal economic interests of key power-brokers more closely with those of the mining companies (through a policy of dividend sharing, for example). Another might have been to encourage mining companies to pay compensation and institute community development programmes from the outset. Another might have been to take a more hands-on supervisory role in the regulatory agencies, instead of entrusting capacity building to an external programme. Another might have been to ensure that the companies were not granted terms and conditions that would inflame nationalist sentiments in civil society. Another might have been to accept that the opposition might win seats in mining areas, but that this would not necessarily destroy the CCM majority, or the pro-FDI stance.
Some of the aforementioned strategies would probably have scared away some foreign investors. But it is worth asking whether Tanzania needs the kinds of foreign investors that employ few people, repatriate the vast majority of the country’s natural resource rents, and have little sympathy for local people or local ways of doing things. Until it finds investors more in tune with the country’s social and political realities, it may be better, as Julius Nyerere believed, to lease mining sites to artisanal miners, while leaving deeper deposits under the ground.

There is of course the final possibility that things would have gone better for foreign mining companies if they had done everything by the book. Not using behind the scenes lobbying, following the rule of law with respect to mine clearances, not paying bribes, and relying on formal associations to represent their interests, as conventional wisdom on the investment climate recommends. We cannot say for certain that this strategy would have failed in Tanzania. However, our hunch is that because of Tanzania’s confused system of property rights and the entrenched venality of its regulatory institutions, mining operations using this strategy may never have got off the ground. It is easy to argue that everything would be better if Tanzanian politicians would simply address problems of property rights and venality, but this is not something that can be done overnight. Tanzanian politicians currently face a five-year election cycle, which focuses their attention on short rather than long-term dividends.

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146 Taxes are now picking up as FMCs begin to pay corporation tax.
6 Conclusion: understanding the climate for business and investment in Tanzania

We began this study with the knowledge that in certain circumstances neo-patrimonialism in Africa could be harnessed for strong economic performance, and with the idea that something of that sort might be happening in contemporary Tanzania. In this, our concluding chapter, we revisit our theoretical framework, our findings for Tanzania in both historical and contemporary perspectives, and the results of studies in the horticulture and gold sectors. We then reflect on what it is that makes Tanzania what it is, paying particular attention to the role of institutions, political culture, and external relations. Finally we offer some conjectures on what might be done to improve the business and investment climate in Tanzania.

6.1 Conceptual and theoretical framework

Readers will recall from our Introduction that this study has been inspired to a large degree by the fact that several Asian and Southeast Asian countries have achieved poverty-reducing economic development in the absence of the best-practice, ‘Good Governance’ institutions that are currently being promoted in Africa by Western donors. Our understanding of the Asian success story has been influenced by a number of writers, but most especially by the work of Mushtaq Khan and his collaborators, which stresses the importance of economic rents in early stage development, and the work of the Centre for the Future State at IDS Sussex, which has shown how ‘relationship-based governance’ can often be more appropriate than ‘rules-based governance’ to improving the business and investment climate in less developed countries.

Transferring these insights to a multi-country study of Africa, we found evidence of four regimes in which neo-patrimonial governance had been compatible with strong, transformational economic performance. Underlying these success stories we found a pattern of centralized, long-horizon rent-management, the enabling conditions for which included strong, personalized leadership, a single-party or dominant-party state, a technocracy that was vertically disciplined, confident and competent, and pro-market (and to some extent pro-rural) policies. This finding was compatible with the theoretical findings of Olson on the difference between roving and stationary bandits, and those of Andrew MacIntyre on the role of rent-centralisation in Suharto-era Indonesia, the basic idea being that a leader who has succeeded in centralizing rents has a rational incentive to then try and grow those rents by limiting predation and providing public goods (although several of our African regimes resisted this logic). The next section discusses the pattern of rent-management in Tanzania.

6.2 Rent-management and the investment climate in Tanzania

We identified four distinct regimes of rent-management in Tanzania between 1961 and 1995. 1961-1967, in which rents were fairly centralized and in which there was a credible long-horizon strategy for growing rents, but in which some rents escaped the control of the top leadership; 1967-78, when rents were further centralized but when the government’s long-horizon strategy lost credibility; 1978-85 when the top leadership lost control of rent-management, even though it retained a long-term vision for development; and 1985-95, when there was some recentralization of rent-management, but with countervailing trends.

We found that the period 1961-67 was one in which private investment was forthcoming and the economy grew at a respectable rate, even if there were concerns about how broad-based
was such growth. 1967-78 was one in which private investment was deterred, and the economy shrank. Between 1978 and 1985, the economy entered a tailspin, and although much private, unofficial economic activity grew to fill the gap left by formal sector collapse, the conditions for long-term private investment remained unfavourable. The situation began to change somewhat from the mid-1980s, as the government, under the tutelage of international donors, adopted pro-private enterprise policies. Nevertheless it vacillated over its privatization programme, corruption scandals caused inflation spikes and the withdrawal of donor support, the regulatory environment remained daunting, and much private economic activity remained focused on short-term racketeering and plunder.

Since 1995 the situation, with a couple of sectoral exceptions, has not greatly improved. We have found a pattern of at best loosely centralized rent-management geared to a short-time horizon. Although at a macro-level the Ministry of Finance has done a reasonable job of balancing resource flows, contributing to respectable levels of macro-economic stability, at meso and micro-levels, rent-management remains undisciplined. At lower levels of the administration, including in strategically important sectors like tax collection, economic regulation, and customs, there is a tolerance of widespread petty rent-seeking which makes the business environment more difficult and costly for investors. At higher levels there is tolerance of grand corruption even in areas as vital the investment climate as the energy and roads sectors. Grand corruption is perpetrated by ad hoc alliances of politicians, officials (including members of the armed forces), and private brokers, usually with the tacit knowledge but not direct involvement of the President. Driving these scams is a combination of individual greed and the need to secure funds for ruling party election campaigns. Grand corruption of this nature serves little economic purpose, even the indirect one of ensuring political stability and continuity. We say this because of anecdotal evidence that only a fraction of the money stolen is actually devoted to election expenses, while the remainder, which might otherwise be spent on investment-yielding public goods, represents a developmental loss to Tanzania.

The overall effect is that the investment climate is less favourable than it could be, and that Tanzanian economic performance is below potential. Although an increased openness to foreign investment and improved macro-economic management in the 1990s stimulated significant investments in mining, tourism, and to a lesser extent in horticulture, these are not fulfilling their potential and have not been replicated in other sectors. Among the major obstacles commonly cited by investors are unpredictable energy supply, arbitrary tax administration, a regulatory environment mired in petty corruption, and extremely poor levels of human capital development. The result is economic growth of respectable levels, but little sign of economic transformation or poverty reduction. In consequence, we are sceptical of reports that forecast Tanzania to be one of the world’s fastest growing economies over the next decade.

6.3 The investment climate in Tanzanian gold and horticulture

Greater insight has been provided into these processes by our studies of the gold and horticulture sectors.

From the late 1980s onwards, new geological discoveries and an increased openness to foreign investment on the part of the government made Tanzania an attractive destination for gold exploration and mining. The number of prospecting licenses issued soared, and this was followed by the signing of several large Mining Development Agreements, and the subsequent opening of several large mines. Nevertheless, the mining sector in Tanzania remains underdeveloped and top heavy, with a dearth of medium and small-scale formal
operations. Following a shift in the political climate and the passage of a new Mining Act, the profitability of large mines is now also under threat.\(^\text{147}\)

We have interpreted the rise and decline of the large gold sector in Tanzania as an unsuccessful attempt by a clique within the state to centralize economic rents. The methods it used were predominantly relationship- not rules-based. It failed because insufficient attention was given to tying the long-term interests either of elites or local communities to the profitability of large-scale mining, and because governance in the Mines Department was entrusted to an external programme. Not only did the initial mine clearances prove extremely controversial, but once details of mining company royalties became public knowledge, the political tide began to turn against mining. Members of the political elite have not offered a robust defence of the mining sector; in fact, many have jumped on the anti-mining bandwagon, presumably because they have nothing personally to lose, and everything politically to gain, from such a strategy.

Although the fate of big mining in Tanzania is to some extent a cautionary tale about the pitfalls of relationship-based governance, we do not believe that following best-practice guidelines would necessarily have been the solution. The legal situation with respect to mining sites in Tanzania was complex and confused, and it seems probable that with a rule of law approach, mining investments would never have got off (or under) the ground. Further, the signing into law of extremely favourable conditions for the mining sector did not prevent a change to those laws when the political climate altered, and nor have formal sector mining associations been particularly successful in defending mining sector interests to the government.

What was missing, we contend, was a sense that mining sector rents, appropriated via either formal or informal channels, were vital to either the individual or collective interests of the political elite, and must be defended against both petty predation in lower levels of the administration and populist politics. This itself is partly explained by the poorly centralised nature of rent-management in Tanzania. That is to say, the underhand manner in which the original Mining Development Agreements were signed greatly reduced the potential rent-flow to the Treasury in the first place. When combined with the fact that even those funds that make it to the Treasury are not under the effective control of the top leadership, we can see why the latter might have reasoned that the mining sector wasn’t worth defending. The reasoning might have been different if members of the political elite were benefitting on an informal, individual basis from a regular flow of profit dividends or political contributions, but we have found no evidence of this. All we have is a suspicion that a handful of individuals benefited from a one-off kick-back at the time the original agreements were signed.

The situation is somewhat similar in horticulture. Although in the 1980s and 1990s the state condoned a process in which natural resource rents (i.e. land rights) were transferred to private investors, they have subsequently provided only intermittent support for the sector. Most usefully, the state has provided some concessionary finance, brokered it appears by a flower-farm owning politician. Beyond that, it has not consistently protected investors from land invasions by villagers or petty predation by government officials. It has levied unhelpful taxes and it has failed to provide constructive solutions to issues like freight costs at Kilimanjaro airport. Although it has responded to some of the formal lobbying of TAHA, the producer association, there is a sense that if it was serious about developing horticulture, it would do much more. That it doesn’t is perhaps a reflection of the fact that rather few officials

\[^{147}\] Unprecedented gold prices since 2008 have earned gold mining companies windfall profits, but these have not brought about a new round of investment in exploration or mining.
and politicians are directly invested in horticulture, and that current revenue streams are perceived to be not worth defending.

This doesn't explain, however, why it is that the regime lacks a long-term vision for a sector that arguably has considerable potential. Why don’t Tanzanian officials want to grow the rents flowing into the Exchequer, and why don't more officials and politicians want to get involved in horticultural exports themselves? To answer this question it is helpful to turn to issues of institutions, political culture, and external relations.

### 6.4 Reflections on the role of institutions, political culture, and external relations

We have explained Tanzania's failure to create the kind of climate favourable to long-term investment and growth in terms of an absence of centralized, long-horizon rent-seeking. We believe this is an interesting finding that bears out our general conclusions about the conditions for successful economic performance in Africa. However, it does not in itself amount to a full explanation of why Tanzania is economically underperforming. From both a logical and practical point of view we are driven to ask, 'Why is it that Tanzania lacks this pattern of rent-management?'

In background work for the Africa, Power and Politics Programme we have previously argued that game-theoretic models provide potentially powerful explanations for why some societies are able to solve the problems of development while others are not. However, we have also stressed that in many situations, a purely rational choice account of the incentives that move behaviour will be insufficient, and that game theoretic mechanisms will have to be embedded in context, conventions, and traditions, or supplemented by other explanatory 'social' mechanisms (Kelsall, 2009).

As previously noted, Olson's model of roving and stationary bandits provides a convenient starting point to understanding why it is that some rulers take a long-term developmental approach to the economy, while others are fixated on short-term looting. In Olson's view, a leader who has successfully monopolized income from economic rents, and who expects to be in power for a long time, has an incentive to grow the economy over the long run, thereby maximising his access to economic rents.

In Tanzania presently the ruling party more or less monopolizes the main forms of economic rent, in that it is difficult to make serious money if one does not have good connections to the CCM. In addition, the CCM, having much more organizational power than the opposition, ought realistically to expect to be in power for a long time. However, the CCM does not behave in the way predicted by Olson's model.

The main reason, we think, is a collective action problem within the CCM itself. In other words, although the CCM monopolizes the main forms of rent-creation, rent-management within CCM is decentralized: it is not effectively coordinated by a single individual or group at the apex of the state. The result is a tragedy of the commons type problem whereby individual cadres seek rents at a level that is probably not sustainable, and that will damage their collective interests over the long run.

It was not always the case. Throughout the 1960s and 1970s Julius Nyerere took great pains to centralize rent-management, using a variety of means: his own charisma and personal authority, a well-resourced intelligence service, draconian political powers, and legislation that abolished independent sources of power. However, the collapse of the formal economy in the
late 1970s destroyed that system, and since then, nobody has tried very hard to restore it. Again, we are driven to ask, why might that be?

A fairly obvious explanation is that it takes considerable personal authority and time to establish such a system, and there is nobody in the CCM that currently enjoys either. The current political generation all grew up in the shadow of Nyerere and there is no-one who comes close to having his stature. Benjamin Mkapa was a political non-entity before being handpicked by Nyerere for the Presidency, and once Nyerere died he lacked the political strength and perhaps the will to overcome corrupt elements in the party. His successor, Jakaya Kikwete is a popular politician with a broad-based appeal, but his financial backing has come from some of the party’s most disreputable elements, and only very recently has he shown an interest in moving decisively against them.

The difficulties of imposing discipline on CCM rent-seeking networks are surely compounded by internal CCM democracy. Aspiring Presidential candidates must contest in party primaries every five years, an enormously financially draining process, and one that more or less guarantees that a candidate with an extremely clean reputation could not win. Of course, our theory of developmental patrimonialism suggests that corruption and clientelism need not be eliminated for poverty-reducing growth to ensue. All that is required is that rents are steered to more productive areas, and that some limits are placed on the most damaging forms of corruption. However, to wean CCM cadres from their current destructive rent-seeking practices, an aspiring President would need a credible strategy for maintaining their access to rents by working with private capital in the interests of growth. There are a variety of reasons why the Tanzanian leadership does not appear to have such a strategy.

Mushtaq Khan has recently argued that the CCM does not take advantage of its favourable political stability and strong organizational capacity to pursue a broad-based capitalist growth strategy because of the weakness of African capitalists. He argues that African capitalism at Independence in Tanzania was weak, and further constrained by Julius Nyerere’s policies of ujamaa socialism. The more capable capitalists in Tanzania were and remain of Asian, Arab, or European origin, and, he argues, placing them at the centre of a growth strategy would be politically contentious. While single deals with short-term pay-offs are possible, ‘a long-term relationship between individual capitalists and political patrons, which results in benefits to the capitalist that are repaid over time in the form of political contributions, taxes or other benefits’ appears less so (Khan, 2010: 125). A possible solution, Khan argues, is to develop a much more active industrial policy to support black African capitalists. And it would be better to do this while CCM remains a dominant party, since it will be difficult to impose the necessary discipline once competitive clientelism, of which there are already strong signs, takes hold.

In our view Khan’s analysis is mostly right. However, he underestimates the extent of the collective action problems within the CCM itself, a facet of internal party democracy. He also fails to provide an explanation, within the terms of his own model, for why Tanzania placed so much emphasis on stability rather than growth in the first two decades of independence, and indeed why it continues to do so. Here we believe issues of ideology and political culture add something to the analysis. In our view the personality and ideology of Julius Nyerere is an independent causal factor in any discussion of Tanzanian development. Nyerere believed that nation-building was an essential prerequisite to development, and that capitalist growth would exacerbate social tensions. He was partly correct, of course, although he probably overestimated the degree to which capitalist development would be unmanageable in a country with Tanzania’s relatively benign ethnic inheritance. Nevertheless, Nyerere’s personal philosophy of African socialism set the tone for Tanzanian development for the twenty-four years he was in power, and arguably for some time after. Indeed, as we saw in our Chapter...
on the gold sector, a residue of distrust of foreign capital persists in Tanzania, an artefact of political culture that cannot entirely be explained by the structural or institutional choices the country faces.

Nyerere’s preference for stability over growth is also deeply ingrained in Tanzanian political culture. CCM claims legitimacy on the basis of having secured peace since independence, when neighbouring states have been in turmoil: it is something of which Tanzanians are justifiably proud. Reflecting this, politicians at all levels of the system invest a great deal of energy in conflict resolution, and an official who allows violence to develop in his bailiwick is likely to suffer repercussions. It is also arguably one of the reasons why CCM appears so allergic to political opposition of any kind. With little experience of managing political opposition, it fears the consequences of allowing alternative parties even the smallest of footholds.

We believe this fixation on political stability, together with a political-cultural hostility to private, especially non-African capital, represents an additional hurdle to creating a pro-growth strategy in Tanzania, making it extra difficult (although not impossible) for the domestic political class to form an alliance with minority capital in the manner of several Southeast Asian regimes. As mentioned above, Khan has advocated the solution of creating an active industrial policy for an indigenous business class, and it is certainly true that this is a solution that flows with the grain of political culture in Tanzania. The problem is that both the relevant branches of the state technocracy and the business class itself are so weak that the strategy may be simply unviable.148

A final factor that needs to be mentioned in any analysis of Tanzania’s business and investment climate is the nature of Tanzania’s relations with the outside world, and in particular with foreign donors. Current donor advice on strengthening the investment climate in Tanzania misconceives the nature of the steps early developers must take to stimulate capitalist development. Moreover, some donor policy in the good governance sphere arguably makes rent-centralisation more difficult. At the same time, the CCM must be aware that the continued flow of donor funds provides it with sufficient resources of patronage and peculation to keep its own cadres on side. We hypothesise that this acts as another factor deterring the high political leadership from attempting the difficult and risky processes that could put Tanzania on a path of sustainable growth.

6.5 Future scenarios for improving growth in Tanzania

The political system in Tanzania has settled into an equilibrium of non-transformative growth without poverty reduction. Collective action problems within CCM, short-termism driven by periodic elections, complacency bred by foreign aid, and a political cultural hostility to private, especially foreign capital help create this, and dissuade the political leadership from taking the steps that would significantly boost private investment. It may be that this equilibrium is sustainable for some time, but it seems to us that growth without poverty reduction, when combined with a relatively open political environment, is likely to bring instability down the line.

How might Tanzania move to a new, poverty-reducing pathway? If there is no single leader with the will or reputation to impose a new discipline in CCM, say by going over the heads of the party and engaging directly with the masses, and if there is little chance in the short-term

148 It is noteworthy in this respect that all the successful Southeast Asian states chose to promote indigenous capital through minority capital partnership, in spite of considerable hostility to the latter in most cases.
of the CCM losing power to the opposition, then a new direction must be the result of a collective decision. A key criterion, it seems to us, is that the high political elite of the CCM should recognize that the current situation is unsustainable. Organs like the Central Committee of the party could then conceivably be used as monitoring mechanisms for mutual discipline of the elite, helping steer rent-seeking into more developmental areas. Other intra-party constitutional changes might be used to strengthen the hands of a developmentally committed group. Donor support could be drawn on to strengthen those arms of the state necessary for a strong industrial policy. The elite would probably have to shed some of its aversion to non-African capital and capitalists; it would need to work out the terms, formal or informal, of a long-term pro-business alliance; and it would have to be prepared to defend foreign capitalists from hostile popular sentiments. It would need to accept that the new policies would probably lose it some seats in the short run, that they would generate new types of political instability, and it would need to have the confidence to manage these.

It is not clear at present what the trigger for such an attitudinal and institutional shift might be. However, regimes the world over usually change course in response to internal or external threats. The problem for Tanzania is that the internal threat from the opposition, although growing, is probably not strong enough currently to induce the required changes. Whether external threats in the shape of changing donor attitudes could have the desired effect, remains to be seen.

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