

A large, thick, grey outline map of Tanzania is centered on the page, extending from the top right towards the bottom right. The map's outline is irregular and follows the geographical shape of the country.

Public goods, rents and business in Tanzania

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Background Paper

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*'What governor would spend his days,
In envious travail, for the public good?'*¹

1.0 Introduction

The main aim of APPP's Business and Politics research stream is to conceptualise and investigate the impact of *rentierism* on the creation and maintenance of public goods in Africa on the basis of in-depth country studies.² This Working Paper examines rents, public goods and the investment and business environment (IBE) in contemporary Tanzania. It is based on a review of the academic literature, government, international development agency and media reports, and semi-structured interviews with a wide range of key respondents.

1.1 Research questions

We examine the impact of public goods creation on the IBE through the following questions:

1. How does the Tanzanian state perform in providing public goods?
2. How does state performance in providing public goods influence the IBE?
3. What are the immediate determinants of state performance in providing public goods?
4. How independent is the bureaucracy in performing its functions?
5. How coordinated and centralised is rent-seeking?
6. How do underlying political factors influence rent-seeking practices?

Question 1 describes the quality of public goods provisioning in Tanzania in a comparative perspective, and **Q2** addresses the impact of this on the IBE. **Q3** examines revenue collection and public expenditure as factors determining the creation and deployment of public goods. On the expenditure side, we examine inter- and intra-sectoral expenditure patterns and public procurement. We also examine 'off-budget' sources of potential rents, and economic regulation. Research **Qs 4-6** require some conceptual reflection. The task is to identify the factors influencing the state in performing its role of collecting and spending revenues on the production of public goods. Specifically, we examine the degree of independence of (key components of) the bureaucracy (**Q4**) and the extent to which rent-seeking is centrally coordinated (**Q5**). Finally, (**Q6**) we try to identify the underlying political, institutional and ideological factors that explain rent-seeking practices.

We address these six research questions in turn on the basis of the conceptual framework developed below. Subsequent Background Papers

¹ Fulke Greville, a Jacobean grandee, quoted by Duffy 2009.

² Kelsall 2008a and 2009. Rentierism is defined as the practice of rent-seeking, rent creation and rent distribution.

examine the effects of the IBE on investment and profitability in gold mining and export horticulture, building on the conceptual framework and findings from this report.³ To simplify the analysis, we largely ignore the influence of exogenous factors, including foreign aid and conditions in the global economy that influence trade and investment.

1.2 Analytical framework

Public goods⁴ are a key determinant of state legitimacy and economic growth. What determines state capacity to create, manage and maintain public goods? How does this affect private decisions to invest, to expand, diversify or to go out of business? Here we present an analytical framework, based on a review of the concepts that have guided the formulation of this research programme.⁵

The state finances public goods through taxes and foreign aid. Revenue collection and public spending are exercises in the creation and distribution of rents. Taxpayers pay the state 'management rents' to run government on their behalf, including raising taxes, managing public finances, contracting, procurement and economic regulation. The efficiency of revenue collection and public spending determines the volume and quality of public goods produced and maintained.

The state influences private investment directly, through policy and regulation, and indirectly, by building and maintaining public infrastructure. The ways rents are mobilised to encourage private investment and risk-taking help determine the level and nature of economic growth and structural transformation. These ways may be legal or illegal, formal or informal.⁶

APPP has been influenced by the literature on the centrality of rents and rent-seeking in the transition to capitalism in Asia. We draw on the work of Moore and others in our discussion of Tanzania's investment and business climate.⁷ Moore and Schmitz distinguish between three types of rent-seeking that influence the IBE: plunder, rent 'scraping' and 'dividend harvesting.' Systematic plunder (typically associated with natural resource rents) and rent scraping (popularly described as 'petty corruption') undermine the IBE, whereas dividend harvesting, in which rent-seeking politician and officials enter into longer-term clientelistic relations with productive private business, has the potential to stimulate accumulation and growth.

A summary article by Williams et al. (2009) that draws on the above and other recent sources distinguishes three types of rent-seeking that

³ Cooksey and Kelsall (2011) draw extensively on these Background Papers to analyse the political economy of the investment and business climate in Tanzania.

⁴ 'Public goods' is our shorthand for *collective* or *social* goods.

Most public goods in Tanzania are provided either in whole--e.g. defence, justice, roads, ports--or in part--telecommunications, postal services, electricity, education, healthcare, security--by the state (central/local government, executive agencies, parastatal organisations). Both public and private provision of public goods imply a critical state regulatory role.

⁵ Kelsall 2008a; 2008b; Booth, Kelsall with Cooksey 2009.

⁶ Khan and Jomo 2000; Booth, Kelsall with Cooksey 2009.

⁷ Moore and Schmitz 2008.

influence the relations between the state and business: predation, rent-seeking *per se*, and patronage spending. **Figure 1** presents this typology.

Figure 1: Typology of rent-seeking

Predation
Predation refers to the expropriation of assets and can be divided into private predation, extortion, and looting (state predation).
Private predation
<i>One private agent steals from another.</i> Private predation characterises conditions of violent conflict, insecurity, lawlessness and state collapse. Predation is often violent and unpredictable and imposes heavy costs and risks on doing business, deterring most investor. Lack of trust makes collective action by private agents problematic; expectation of dishonesty in business undermines investment and risk-taking; joint-venture investments are grabbed by one party.
Extortion
The <i>theft of privately held resources by public officials.</i> This includes a wide variety of illegal transfers, including simple extortion, confiscation, arbitrary, coercive and punitive extraction of taxes, land grabbing and the involvement of public officials in organised crime. Shaking down businessmen for election contributions; corruption among tax collectors; agricultural regulation and taxation; rent scraping also constitute extortion. Extortion includes 'rent-scraping' and dividend collection.
Looting (state predation)
<i>State predation is the theft of public resources by public officials.</i> State predation takes the form of corruption and waste in public spending and procurement, and the illegal extraction and sale of natural resources.
Rent-seeking
We define rent-seeking as the <i>capture of public regulatory power</i> by private interests to create and capture rents. Politicians and bureaucrats collude with private interests to create rents by limiting access to resources. Ways of generating rents include granting monopoly rights, imposition of import tariffs, quotas and prohibitions, rationing of licences, bias in the award of public contracts and selective enforcement of laws, contracts and property rights. Rents are shared between politicians, officials and businesses and may help or hinder primitive accumulation. State capture is an extreme form of rent-seeking.
Patronage spending
Public spending is <i>diverted into private goods</i> provision and transfers, such as subsidies, excessive allowances for state employees and others, and pork-barrel/prestige projects that benefit narrowly targeted groups.

Source: Adapted from Williams et al. 2009.

The typology is useful in helping us address research questions 1 and 2. For the moment we are not concerned with private predation, although arguably it has a significant effect on the IBE. Extortion (*state predation*) includes much of what Moore and Schmitz refer to as 'rent scraping'. Though much rent scraping is petty in nature, the concept also covers more serious issues from our perspective, including predatory tax collection practices. *Predation* is a major potential cause of underperformance in state production of public goods.

We define *rent-seeking* in a narrow sense as the subversion of state policy-making and regulatory functions to particularistic, mostly business,

interests.⁸ Non-state actors seek rents by attempting, at the extreme, to 'capture' the state or, more frequently, to influence state actors through bribery and rent-sharing.⁹ Businesses may protect themselves from actual or potential competitors by mobilising support from key state actors. Where such practices are based on reciprocity and cooperation, even trust, between the state and private investors they may be termed 'cronyism'.¹⁰ Khan defines four types of corruption with different effects on the capacity of the state and business. Predation and theft have net negative effects. 'Market restricting corruption'--including 'state predation' as defined above--also results in net costs from the point of view of accumulation. 'State-constraining corruption' is associated with the creation of potentially productive rents.¹¹ However, if corruption constrains the state beyond a certain point, the intervention becomes harmful. For example, allocating fishing, hunting or logging licences to a smaller or a larger group of rent-seekers makes the difference between sustainable and unsustainable resource exploitation.

William's *et al.*'s last concept is patronage spending, in which rents are allocated to various constituencies in order to maintain political support or fend off potential opposition. The more disunity within a political system, the more power holders are obliged to buy off opposition and reward their current supporters. Beyond a certain point, this practice can deteriorate into systemic plunder of both budgets and non-budgetary sources of rents, leading eventually to state failure.

Rents can be sourced both on- and off-budget. Khan and Gray (2006) argue that:

'political stability in developing countries depends on off-budget transfers to critical constituencies using patron-client networks operated by the parties and groups in power.'¹²

Their argument is based on the inadequacy of taxes and the national budget to supply adequate rents. They observe that 'developing countries are lucky to be able to tax 10-20 per cent of much smaller [that is, than advanced countries] national incomes.' The issue for the authors is where rents can be appropriated in poor countries to maintain political stability in the face of potentially trouble-making critical constituencies.

After paying the salaries of civil servants, many of the poorer developing countries find they are already running budget deficits, and

⁸ We will use the term 'rent-seeking' as shorthand for the four practices defined in **Figure 1**. It will be clear from the context if we are using the narrower sense of 'rent-seeking' meaning attempts by private actors to capture regulatory and policy advantages.

⁹ A variant on the theme of state capture is the 'criminalisation' of the state. See Bayart et al. 1999 for evidence of the criminalisation of the state in Africa, and Cooksey 2005 for a brief discussion of the Tanzanian case. The conclusion is that Tanzania is not an example of state capture.

¹⁰ Studwell 2007 describes the strengths and weaknesses of crony capitalism in Asia.

¹¹ Examples: subsidies for technology acquisition, natural resource rents, subsidies for learning in emerging industries (Khan and Gray 2006:13).

¹² Khan and Gray op. cit., 18-19.

even in the relatively better off ones, there is little left for redistribution after infrastructure and essential public goods have been provided.¹³

The notion that there is little left 'after infrastructure and essential public goods have been provided' begs the question of whether in fact these are provided at all, or whether the predatory activities of state actors effectively *prevent this from happening*. Whatever the tax/GDP ratio, what is at stake is the uses to which tax revenues are put. We do not assume, with Khan and Gray, that revenue is used to pay salaries and then provide essential public goods. On the contrary, our review of the literature suggests that the GoT is *creating only a fraction* of the public goods it theoretically could with the available resources in the absence of systemic predation and rent-seeking.

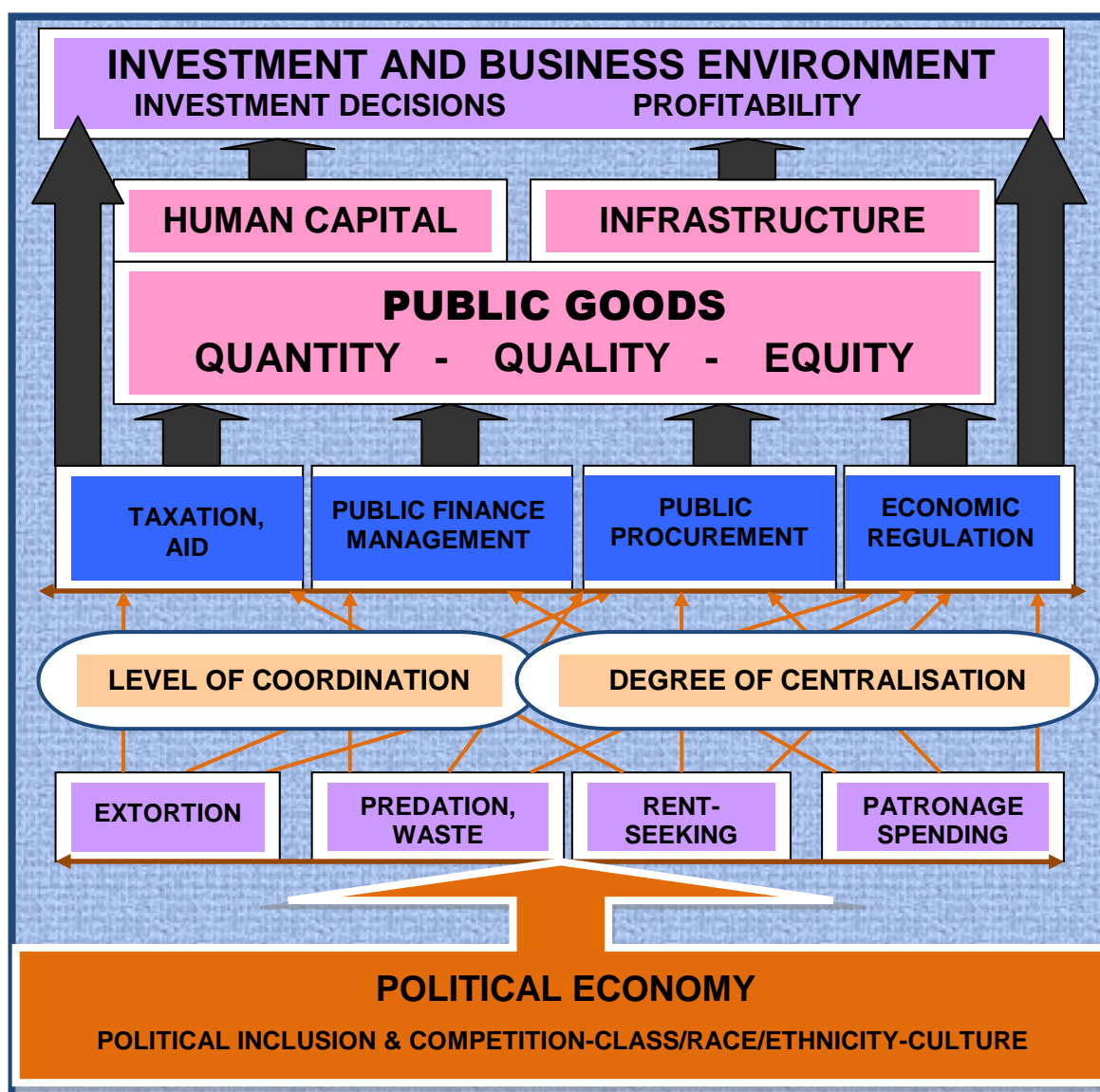
Off-budget sources of rents are also extremely important. These include natural resource rents of all kinds, pension funds, below-value privatisation and off-budget foreign aid. The relevance to the budget versus off-budget issue here is precisely that natural resource and other rents are largely captured privately at *the expense of tax income*. We will see that state actors are intimately involved in both processes.

We conclude that the rent-driven relations between politicians, their constituencies, bureaucrats and businesses should be reviewed in relation to both on- and off-budget sources of rents and predation. If we ignore the on-budget issues, we are missing a vital link in the rents-public goods-profitability chain. In what follows we will include the source of finance for rents as an important variable.

Figure 2 summarises our analytical framework. The framework schematises some of the above discussion. We seek the underlying explanatory variables for the types of rent-seeking we observe in the state-business interface at the level of the political-economy of the country: how inclusive is the political process? Do significant groups threaten the stability of the state and need to be bought off through patronage? Who owns the key sectors of the economy? What ideologies and institutional norms drive the political process? The impact of the various rent-seeking practices on revenue and expenditure is also mediated by the manner in which rent-seeking is or is not centralised and coordinated. A related mediating factor is the influence of the political centre in protecting the technocratic core of the state, with major possible effects on macro- and micro-stability and the quality of public goods created.

¹³ Khan and Gray 2006:18.

Figure 2: Analytical framework for rent-seeking, public goods and the IBE



These political economy factors are mediated through the processes of rent-seeking--extortion, predation, private rent-seeking, and patronage spending--that strongly influence the state's performance in collecting and spending revenue. This performance largely determines the amount, quality and distribution of social and economic infrastructure and other public goods that the state produces and deploys within its territory. The quality of the country's infrastructure and economic regulation are among the major determinants of the investment and business environment facing local and external investors, and the rest of the economy, which is largely rural and informal.¹⁴

¹⁴ This report has little to say on agriculture. Initial work on the political economy of Tanzanian agriculture suggests that the type of analysis used in the present report will uncover similar patterns of rent-seeking, with overall deleterious effects on the rural IBE.

Guided by the conceptual framework outlined above we proceed to review the official, donor agency, media and academic literature on the provision of public goods in Tanzania. We supplement the analysis with information from numerous semi-structured interviews addressing the research questions listed above. Our discussion proceeds from the top to the bottom of **Figure 2**, that is, from the dependent via the intermediary to the underlying explanatory variables.

The issues dealt with in this report are vast in scope and the empirical record on which to draw is quite daunting (though there are important gaps). APPP's Local Leadership stream tries to explain variations in the performance of public goods provision at the local level. The present report stresses constraints on public goods financing and provision at the national level. The main conclusion is that systemic rent-seeking--including tax evasion, plunder, private regulatory capture and patronage spending--*dramatically reduces* the sum total of financial and human resources available for public goods and service provision throughout the country. We consider the conclusions of this report as essential background for the discussion of local-level public goods provision. Last, though trying to apply an analytical framework, the paper is highly empirical, and much more interpretive work is required down the line.

We proceed as follows. **Section 2** examines Tanzania's overall investment and business environment with a view to assessing the degree of uncertainty faced by investors and the costs of doing business. **Section 3** summarises the performance of the Tanzanian state in creating public goods and **section 4** examines the impact of public goods provisioning on the Tanzanian IBE. **Section 5** analyses revenue collection and public expenditure in some detail, while **section 6** examines the coordination and centralisation of rent-seeking, including the independence of the bureaucracy. **Section 7** seeks to identify underlying explanatory variables in the realm of politics, ideology and institutions. **Section 8** concludes and **section 9** looks forward.

2.0 Tanzania's contemporary Investment and Business Environment

2.1 Introduction

Here we examine Tanzania's contemporary investment and business environment (IBE). Though analytically distinct, these concepts are closely related.¹⁵ The investment environment defines the *risks* investors run, whereas the business environment defines the *costs* involved in doing business. The investment environment refers to '*the degree of uncertainty that investors face about their ability to profit in the future from investment decisions made now*', while the business environment refers to:

'the availability, reliability and cost of public infrastructure (transport, water, telecommunications, sewerage etc.); the availability of skilled labour; the implications for business 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 against political interference.'¹⁶

Governments can reduce or increase the risks inherent in doing business, with major consequences for the investment environment. Risk rises, for example, as a result of:

'large arbitrary changes in tax rates; inability to enforce contracts and debt obligations with suppliers or customers; the unwillingness of the police to take action against large scale theft of goods in transit; or the sudden word from the Minister of Industries that, unless his son is able to purchase a large slice of the equity cheaply, a company will face ... closure on grounds of violations of labour, environmental, safety and tax regulations.'¹⁷

According to Moore and Schmitz, there is 'another set of causes of uncertainty' including:

'the inability or unwillingness of governments to act positively in, for example, giving private investors in a new industrial sector confidence that the government will make the promised infrastructural investment on which the viability of the investment depends, intervene sensibly to

¹⁵ Moore and Schmitz (2008:19).

¹⁶ Moore and Schmitz, *op. cit.*, emphasis in the original. The authors continue: 'If a company has to pay a regular bribe to the Minister of Industry to stay in business, but knows what the amount is, and can count on the Minister to ensure that no one else demands big bribes, then bribery is just a cost of doing business.'

¹⁷ *Ibid.*

help resolve conflicts that may arise between them, or provide additional loan guarantees should that prove necessary.¹⁸

These and other examples of *'policy uncertainty'* are regularly rated as the most severe constraint by firms in developing countries.¹⁹ In other words, government has a positive coordination role to play to reduce risks related to market failure. The absence of proactive state initiatives, or lack of state capacity to perform this role fairly, serve to undermine the national investment environment, to which we now turn.

2.2 The investment environment

The following sections sketch the contemporary IBE resulting from the economic and political liberalisation of the last quarter century. Economic liberalisation has been neither smooth nor consistent: considerable success with macro-level reforms contrasts with widespread micro-level failures during this period. Further empirical work will investigate the contemporary IBE in gold exploration and mining and commercial agriculture.

2.2.1 Liberalisation and investment promotion

Economic liberalisation started in the mid-1980s, and has continued to date. The main reforms initiated by the GOT include the liberalisation of trade and banking, parastatal privatisation, foreign exchange deregulation, and tax reform. The first phase of Tanzania's structural adjustment programme (1986-89) focused on trade liberalisation, the second (1989-92) on foreign exchange and investment deregulation, and the third (1993 onwards) on civil service and parastatal reform.²⁰ In the second phase, the banking system was opened up to international banks and a 'unified foreign exchange rate' was introduced. In the third phase, financial, industrial, and commercial state monopolies were progressively privatised, and policies adopted to improve the investment and business environments for both national and foreign private investors. Foreign exchange controls came to an end in 1996. The Tanzania Revenue Authority (TRA) was set up in the same year.²¹

In 1990, the GOT published a National Investment Promotion Policy and Investment Code, and established the Investment Promotion Centre (IPC).²² Parliament passed the National Investment (Protection) Act in the same year.²³ According to Kahama (2010) the IPC was underresourced and came up against ideological and institutional resistance 'in the heart of government'. 'Even those civil servants who were not hostile to the idea of promoting private investment, were faced with the problem of relating their own departments to an economic approach which was contrary to almost

¹⁸ Ibid.

¹⁹ World Bank's Investment Environment Surveys, summarised in the *World Development Report 2005* (World Bank 2005:43), cited by Moore and Schmitz, *ibid*.

²⁰ See Gibbon 1995: 10-17.

²¹ The Express Survey 1997:1.

²² President's Office, Planning Commission 1990. 'National Investment Promotion Policy', Dar es Salaam. The policy also foresaw Tanzania joining the International Centre for the Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA), both World Bank affiliates.

²³ Kahama 2010: 127.

everything they had done in the previous twenty-five years.’ The need for ministerial and committee approval frustrated the objective of reducing the ‘labyrinthine bureaucratic process’ governing investment decisions.²⁴

A less flattering view claims that the IPC:

‘...was quickly transformed into a major rent-seeking vehicle, which contributed to the severe fiscal crisis in 1993/94. ... IPC did not play a useful role in facilitating private business, but administered a non-transparent and arbitrary system of tax exemptions.’²⁵

The IPC was replaced by the Tanzania Investment Centre (TIC) under the Tanzania Investment Act (1997) which offered investors a range of fiscal and non-fiscal incentives.²⁶ Fiscal incentives include import duty and VAT exemption on capital goods and an import duty drawback scheme. Non-fiscal incentives include an immigration quota of expatriate staff, and guaranteed transfer of net profits and dividends, and payment in respect of foreign loans, royalties, fees and other charges. Officially a ‘one-stop’ office for investors, TIC is in charge of a ‘land bank’ designed to ease the problem of accessing (leasehold) land by investors.

According to Samuel Sitta, the first Executive Director of the TIC:

“We now [2003] have in place a legal and regulatory framework that has enabled privatization, increased investment, an open market, absence of exchange controls, unhindered repatriation of earned income and reliance on market forces in allocating resources.”²⁷

Prior to 1992, FDI was minimal. In 1993, it rose to \$20 million and to \$50 million in 1994. From 1999 to 2001, FDI averaged \$200 million a year, and rose rapidly thereafter.²⁸ After 1994, the upward trend was heavily influenced by FDI in gold mining. Did the policy reforms described above drive this trend?

²⁴ Kahama op. cit.,128-9. The IPC ‘had particular difficulty with some of the more conservative elements in the Treasury’. The Investment Code required the IPC ‘to operate within a highly bureaucratic structure’ so that ‘granting of approval for investment proposals took a very long time.’ (Kahama op. cit, 132). The IPC was involved in facilitating investments in hotels (Kunduchi Beach, White Sands, Sheraton), breweries, cigarettes, banking (Standard Chartered), construction (International House), and ‘a number of investments within the IPP group’. (ibid, p 133).

²⁵ Fischer and Kappel 2005:9. The authors cite no source for their interesting claim.

²⁶ Tanzania Investment Centre website <www.tic> accessed 09/03/09.

²⁷ The Investor 2003:8. Sitta is currently (2009) Speaker of the National Assembly. Although the TIC claims to be a ‘one-stop’ investment centre, in practice, new investors still have to negotiate with a multiplicity of state agencies. Lacking information and contacts, new foreign investors may hire an agent or go into a joint venture, as discussed in the following section.

²⁸ The Investor, 2003, No. 9, March. In 2002, 330 investment projects are said to have fetched over \$1 billion. Figures are unreliable, however.

2.2.2 Privatisation and ownership

Public ownership of the 'commanding heights' of the economy was the cornerstone of the *ujamaa* period, and by 1990 Tanzania had 425 public companies covering all sectors of the country's economy. In 1993, public enterprises accounted for about a quarter of non-agricultural employment, but for only 13 percent of GDP.²⁹

The Presidential Parastatal Sector Reform Programme (PPRSP) was established with donor support in 1992 and a privatisation masterplan was published in 1993.³⁰ By the end of 1996, 141 parastatals had been privatised,³¹ and between 1995 and 2004 a further 219 were privatised.³²

Despite huge losses, parastatals and the government resisted external pressures to 'privatise'. Opposition was practical, political and ideological. Workers and managers feared retrenchment under new management and control. Dismantling the parastatals meant loss of policy leverage and patronage by senior politicians and bureaucrats. Ideologically, privatisation involving foreign ownership and control prompted a strong nationalist reaction. Former President Nyerere's hostility to privatisation was echoed by many ruling party MPs and opinion leaders well into the 1990s. He described the sale of profitable companies (for example, the breweries and cigarette company) as 'robbery'.³³ Local private sector lobbies also complained that they were marginal to the privatisation exercise, which favoured foreign companies.

From 1987 to 1996 roughly 105 parastatals made profits and 161 made losses. The loss makers were largely the beneficiaries of state credits and guarantees while the profit makers were the main beneficiaries of donor financed Commodity Import Support (CIS).³⁴ According to Fischer and Kappel: 'loss making parastatal companies survived for many years because they succeeded in capturing huge rents that were financed from both regular government revenues and donor funds.' They estimate that: 'at 1994 exchange rates parastatals were able to capture \$360 million p.a. in 'rents' during this period.'³⁵

Eventually, influential pro-liberalisation and privatisation voices began to make themselves heard. The 'third phase' government of President Benjamin Mkapa (1995-2005) strongly supported the privatisation agenda initiated under president Mwinyi.³⁶ With external backing, Mkapa also began a

²⁹ The figure was 380 in 1979, at the onset of the economic crisis. Presidential Parastatal Sector Reform Commission 1993. *Parastatal Privatisation and Reform Masterplan*, Dar es Salaam, August, page 3.

³⁰ GOT 1993 op. cit.

³¹ The Express 1997.

³² Cooksey 2005a:40.

³³ Writing in 1997, Juma Mwapachu referred to the opponents of privatisation as 'a few die-hard socialists and nationalists', but took care to exclude Nyerere from this group. See Mwapachu (1997:2).

³⁴ This made aid fungibility a serious problem (Fischer and Kappel 2005:13).

³⁵ Fischer and Kappel (2005:18). Kahama (1995:73) gives the following figures for losses by industrial parastatals: 1987: \$39.9m, 1988: \$139.7m, and 1989: \$63.1m.

³⁶ Corruption may have speeded up the process: '...there is growing evidence of ministerial interference in privatizations which the Parastatal Sector Reform Commission has been handling, and of attempts to by-pass the PSRC in negotiation of private entry into certain

relatively high-profile anti-corruption campaign.³⁷ Towards the end of his presidency, President Mkapa argued passionately that 'successful privatisations' showed 'that the decision of my party, CCM, to bring the private sector into the economy is the correct one. ... it will be correct ... until someone comes up with a better framework to unleash human creativity, initiative, and entrepreneurship.'³⁸ In January 2006, President Kikwete 'directed speedy privatisation of the remaining 37 parastatals' by 2007.³⁹

In his 2007/08 audit report, the Controller and Auditor General identified at least 164 'corporations', complaining that the Treasury Registrar had not 'taken over the role of regulating and supervising public entities' according to law after the Standing Committee of Parastatal Organisations (SCOPO) was disbanded.⁴⁰

While many Tanzanians are uneasy at the prospect of non-Tanzanians taking over major segments of the national economy, liberalisation and privatisation have also raised the issue of local economic ownership. While most micro- and small-scale businesses are owned by African Tanzanians, most of the medium- to large-scale private industrial, commercial and service enterprises are owned by Tanzanians of Asian (mostly Indian) origin and a smaller group from the Gulf and the Middle East.⁴¹ The majority of these are Tanzanians by birth and citizenship.⁴² Large foreign companies are dominant in banking, mining, information technology, hotels and tourism, supermarkets (partially), roads, infrastructure, construction, and other sectors.

A plausible working hypothesis is that the ideological and political effects of colonial and post-colonial race relations in Tanzania *strongly influence the nature and content of the investment and business environments*. The broad overlap between ownership of capital, economic class and racial origin (African, European, Asian, and Arab) has had political repercussions throughout the history of Tanzania, and the region more generally. Nationalist sentiments and politics are built around these overlapping structural inequalities.

In 1999, newly-appointed Minister of Industries and Trade Iddi Simba raised the issue of the economic empowerment of the '*wazawa*', literally the 'locally-born', but generally interpreted as 'Black-African Tanzanians'.

strategic sectors. It is widely suspected that high-level corruption is involved in certain of these arrangements' (World Bank, 1998).

³⁷ Anti-corruption was Mkapa's key election platform (Cooksey 2005a). By his second term (2000-05), anti-corruption efforts had been safely 'routinised'.

³⁸ Tanzanian Affairs 2004, 'In defence of privatisation and South African investment', No 77, January-April. CCM's election manifesto for 1995 makes no mention of the merits or demerits of privatisation. However, the 2000 manifesto endorses privatisation, and argues for economic empowerment, including reviving cooperatives and 'favouritism (sic) towards nationals in employment and commerce.' See CCM 1995:16; CCM 2000:2-3.

³⁹ Nsungwe 2006.

⁴⁰ Daily News reporter, 29 April 2009. There is no central registry of state minority share ownership in JVs. The GOT holds minority shares ranging from 20 to 29 percent in at least 25 former parastatals (Daily News reporter, 4 May 2009).

⁴¹ The first group, which consists mostly of Indian Hindus and Muslims, and some Sikhs, is referred to in Kiswahili as *Wahindi*, the second as *Warabu*. Muslims are in turn subdivided into sub-groups, in particular, Bohoras, Ishnasharis and Ismailis.

⁴² Some also have British passports.

Reversing a key component of the 1993 investment promotion policy, Simba pronounced that 30 industrial and commercial sectors should be reserved exclusively for *wazawa*--including small hotels and guest houses, restaurants, and bureaux de change--and others that should require 50 percent local participation (joint ventures)--including clearing and forwarding, supermarkets, petrol stations and large garages. The Minister's pre-election initiative was quickly quashed after foreign investors and diplomats protested to the Mkapa government (Satchwell 1999:25-7).

In his second term, Mkapa rigorously defended his policies against accusations by some media houses and opposition parties that 'foreigners', including South Africans, were 'colonising Tanzania.' Mkapa replied: "I have only one answer to such criticisms. I wish we could have more South African investments in this country."⁴³

2.2.3 Political liberalisation

The beginnings of the transition from a command to a market economy (1985-86), preceded the transition from one-party hegemony to a more competitive polity by a few years. In 1990, five years after ceding the presidency to Ali Hassan Mwinyi, Julius Nyerere proceeded to champion the return to multi-party politics, a process consummated in the 1995 elections that brought Benjamin Mkapa to power.

With the endorsement of the 'Zanzibar Declaration' in 1991, the ruling party officially abandoned *ujamaa* socialism. CCM was no longer a party of workers and peasants, but also embraced businesspeople ('*wafanyabiashara*'). Crucially, the declaration abandoned the Leadership Code of the Arusha Declaration, allowing public officials to be involved in private business. CCM subsequently endorsed a report on *Policy and Direction of the CCM in the 1990s and Beyond* 'that put the market and the individual as well as cooperative enterprises as the central vehicles for leading the economic development process.'⁴⁴ Thus, the adoption of a formal commitment to competitive politics led the ruling party to fall in line with the emerging market economy orthodoxy. Translating this formal commitment into effective market-promoting policies has been problematic, as we try to demonstrate in subsequent reports.

The early years of economic and political liberalisation unleashed a spate of largely uncoordinated rent-seeking benefiting in particular formerly marginalised Asian merchant capitalists. According to one 'popular discourse': '[T]he principal beneficiaries of the Mwinyi-adjustment years have been the Tanzanian Asian and Arab ethnic minorities, Muslims and their international allies, and Zanzibaris.'⁴⁵

The major forms of rent-seeking during this period were widespread tax exemptions on 'own-funded' imported goods and the systematic non-payment of 'counterpart funds' for raw materials to boost local industrial production.⁴⁶

⁴³ The Investor correspondent (2003:19).

⁴⁴ Mwapachu 2005:50. The Tanzanian constitution still pays lip service to socialism, however.

⁴⁵ Gibbon 1995: 17. This view was said to be widespread among mainland African Christians.

⁴⁶ In 1994 the Minister of Finance Kigoma Malima was forced to resign over tax exemption scams concerning imported sugar, rice and wheat. Two years later his replacement Simon Mbilinyi and his deputy were also forced to resign over tax exemption scams.

Both parastatals and private companies were involved in the non-payment of counterpart funds, which were the local currency equivalent of foreign exchange provided by donor agencies. These and other malpractices⁴⁷ led to serious budgetary imbalances and inflationary pressures, precipitating another crisis in relations between the Tanzanian government and external donors during the second Mwinyi term (1990-95).⁴⁸

Economic and political liberalisation radically altered the terms on which the state and private sector interacted. Creating rents was built into the command economy of *ujamaa* as a means of creating an autonomous national economy, including tariff protection for basic industries and restraining agricultural incomes through relative prices to generate savings to invest in industrial development. The strategy may have been questionable on theoretical grounds, but was anyway inefficient in practice. Uncoordinated rent-seeking by parastatal managers and senior government officials added to the heavy cost of running parastatal enterprises, many of which were never profitable.⁴⁹

The failure of this strategy led to growing external pressures to adopt alternative neo-liberal policies. A common view is that liberalisation brought about a rapid increase in *illicit* rent-seeking, while the idea of generating legal rents as a policy objective was abandoned in favour of market-based solutions to market failures. Far from addressing market failures, the illicit rent-seeking described above had negative consequences for macro-economic stability, which is one of the less controversial pre-conditions for long-term investment and growth.

The reestablishment of relative order in public finances and the tax regime, macro-economic stability, and an attack on official corruption of all kinds, were the priorities of the Mkapa presidency, and are discussed further below.

The phased dismantling of the command economy took place without urban food riots or a breakdown of law and order. 'Peace and security' are major preconditions for most investors, and one of Tanzania's major claims to 'investor-friendly' status is the low level of politically-motivated violence ('political stability'). This reputation for peaceful politics has been undermined in recent years as a result of violence and deaths during elections in Zanzibar,

⁴⁷ \$120 million in deposits were transferred out of the country before the collapse of Meridian-BIAO, National Bank of Commerce lost \$200 in bad loans. Tax evasion on imports (\$137m) and losses related to counterpart funds (\$100m) give total losses of \$557 million, most of which has never been recovered. (Hodd and Theobald 1996:283-4). The counterpart funds debts are the source of the 2005 External Payments Account scam at the Bank of Tanzania.

⁴⁸ In 1994, the IMF declared Tanzania's reform programme 'off track' and suspended disbursements after the GOT failed to tighten up on exemptions, deferred payments and smuggling between the mainland and Zanzibar (Fischer and Kappel 2005).

⁴⁹ The evidence is anecdotal but persuasive, given the widespread shortages (foreign exchange, consumer goods) and price controls at the time. It is likely that inefficiency and incompetence were more serious constraints on parastatal performance than corruption, however, given the lack of business experience of most parastatal managers.

where the ruling party (CCM) is strongly challenged by the opposition Civic United Front (CUF).⁵⁰

Our review of the investment environment suggests that there has been considerable resistance to donor-driven sector reforms from within the state apparatus. Though there were reversals, re-establishing macro-economic stability has been a successful feature of the reform period. The slow pace of liberalisation and privatisation may have been preferable to the 'big bang' approach adopted by other countries emerging from socialism from the late 1980s, but has left a legacy of considerable uncertainty surrounding the robustness of state policy commitments on ownership and management of key economic sectors and corporate entities. We return to these issues in subsequent sections.

2.3 The business environment

The business environment determines the ease or difficulty of running businesses profitably. Starting in the late 1980s, the GOT began to reform the business environment, with assistance from donors. The Investors' Roadmap (1997) revealed the depth of the problems still to be addressed in order to alleviating obstacles to making profits. According to the roadmap, the most serious problems concerned import clearance, business/trade license issuance, expatriate work permits, land acquisition, and planning approval. The roadmap estimated that 'the average delay to start operations in Tanzania is 18-36 months.'⁵¹ The Roadmap listed bureaucratic constraints to investment⁵² and the need to pay bribes to speed up the processes:

- *High opportunity costs*--officials are not in the office, forms not available, officials fail to attend meetings so that 3-4 visits are required rather than one;
- *Land availability and registration*--Certificate of Occupancy takes 3-12 months, bribes may not work; one to six months delays to obtain building permits reported;
- *Utilities*--delays, bribery (\$100 bribe for a telephone connection, or wait for 18-24 months); water supply;
- *Work permits*--difficult and non-transparent process, pay-offs required can be high, for example \$5,000 to obtain a permit within a month;
- *Import clearance*--one of the most complicated in Africa, 5-10 pay-offs per shipment, delays of 7-14 days typical;
- *Operational requirements*--average 89 filings a year (48 in Uganda).

The Roadmap noted that, in case of default, banks cannot take control of collateralised property. Outside Dar es Salaam procedural constraints were especially daunting. Finally, it also noted examples of instability in the investment environment, citing 100 percent retroactive electricity price

⁵⁰ In 2010, CCM and CUF brokered a power-sharing deal and violence was avoided in the (closely run) elections of that year. WBI data for 'political stability and absence of violence' show a flat trend for the 1996-2005 period. See WBI 2008:3.

⁵¹ USAID 1997: i-vi, cited by Cooksey 2005: 42.

⁵² Read foreign investment.

increases, instability of tariffs on raw materials, and unilateral removal of Investment Promotion Centre (IPC) incentives.⁵³ An assessment of the investment situation in December 1998 repeated the main concerns of the roadmap: a 'control mentality' among government officials, lack of empathy for business needs, deficiencies in the legal system and pervasive corruption.⁵⁴

Subsequent legislative and procedural reforms designed to further reduce the cost of doing business in Tanzania have not had a dramatic impact. One global survey found that Tanzania's investment and business environments started to improve in the mid to late 1990s, but that the improvements started levelling off after 2000.⁵⁵ 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.'⁵⁶ 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.'⁵⁷

The World Bank's 2006 *Doing Business* report ranked Tanzania 140th out of 155 countries surveyed in the ease of doing business.⁵⁸ 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.'⁵⁹ In 2009, the WB rated Tanzania 126th out of 183 countries on the same index, which represents a significant comparative improvement.⁶⁰

In the Global 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 percent and a low income average of 30 percent (**Figure 3**).⁶¹

⁵³ Tanzania Roadmap, op. cit. The IPC was the precursor of the TIC.

⁵⁴ The Service Group 1998.

⁵⁵ Gwartney and Lawson 2008. This source measures the 'degree of economic freedom' in five areas: (1) size of government; (2) legal structure and security of property rights; (3) access to sound money; (4) freedom to trade internationally; and (5) regulation of credit, labour and business. Tanzania scored 3.9/10 on a composite index in 1990, 6.2 in 2000, and 6.4 in 2006.

⁵⁶ IMF 2006:12-13.

⁵⁷ IMF op. cit. page 9. Respondents highlighted the cost of bank credit, but also complained about tax rates and attempted extortion by TRA officials.

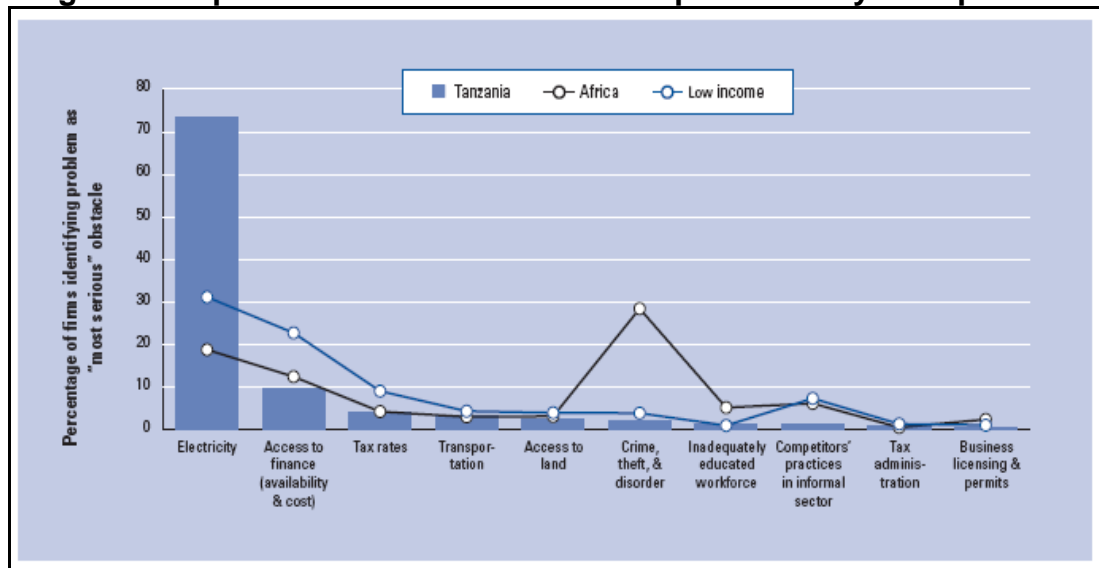
⁵⁸ The comparable figures for 2008 and 2009 are 124th and 127th respectively out of 181 countries (www.doingbusiness.org). In Africa, Tanzania ranked 14th out of 46 countries listed, compared with ranks of 5th and 10th for neighbors Kenya and Uganda (afrol News: <http://www.afrol.com/test2008/articles/32185>).

⁵⁹ World Bank 2009; Other sources (Moore and Schmitz 2008: 18) include: www.investmentenvironment.org; www.enterprisesurveys.org; www.weforum.org; www.businessenvironment.org; <http://www.heritage.org/research/features/index/>

⁶⁰ Source: www.doingbusiness.org The improvement is from the 90th to the 69th percentile.

⁶¹ Global Economic Forum 2009.

Figure 3: Top 10 most serious constraints perceived by entrepreneurs



Source: Global Economic Forum 2009

For businesses the main problem is not tariff levels but 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...'⁶²

Investors also underscore corruption and poor governance as important factors undermining profitability in Tanzania. Government regulations that encourage rent-seeking, including complex business licensing, with overlapping regulatory mandates, *ad hoc* tax exemptions and a corruptible legal system are identified as key factors affecting investors' attitudes. Rigidities in labour markets are identified in the 2009 Global Competitiveness Index.⁶³

According to the World Bank Institute (WBI), economic regulation in Tanzania during the period 1996-2008 stagnated at a comparatively low level of effectiveness.⁶⁴ WBI's index of 'government effectiveness'--meaning the state's capacity to create and manage public goods--shows an improvement between 1996 and 2002 and a levelling off thereafter.⁶⁵

⁶² IMF 2006:13

⁶³ Tanzania's rankings on some of the relevant indicators are: 'rigidity of employment' 121 (90th percentile), 'pay and productivity' 105 (78th), and 'flexibility of wage determination' 102 (76th). GCI 2009, *ibid*.

⁶⁴ WBI 2009. The WBI index is based on 4 sources in 1996 rising to 11 in 2008. See www.govindicators.org and www.worldbank.org/wbi/governance/ for the different sources used and for further details. WBI indicators are based on the perceptions of national and international experts, businesspeople and survey results.

⁶⁵ WBI 2009.

It is worth remembering that the last two decades have been a period of massive formal institutional reform, both inspired and funded by multilateral and bilateral donor agencies.⁶⁶ Fischer and Kappel argue that:

‘... the slow pace of improving the business environment is not so much due to financial and technical constraints in implementing reforms, but reflects to a large extent well-targeted rent protecting activities of parastatals and other beneficiaries in the public and private sector.’⁶⁷

Since the advent of economic liberalisation, the GoT and the formal private sector have established various business promotion fora, general and sector-specific business associations and lobbies. As early as 1988, the GoT 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.⁶⁸ 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.⁶⁹

Recent donor-financed efforts to improve the IBE 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.⁷⁰

Diplomatic missions promote the interests of investors and seek redress on behalf of their nationals in the event of unresolved disputes with the government and/or joint-venture partners. Rarely do they make joint representations on matters of common concern, and they generally fail to

⁶⁶ Therkildsen 2001 talks of ‘reformitis’, highlighting the scope of reform efforts and their systemic failure.

⁶⁷ Fischer and Kappel 2005:10. The authors’ conclusion is for the period up to 2005.

⁶⁸ One interviewee in our GEM 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 constraints on donor-financed business associations becoming effective representatives of their formal members.

⁶⁹ Mwapachu 2005:386-7. See our horticulture study (2011) for a discussion of the dangers of aid dependency in this sector.

⁷⁰ 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.

resolve the problems raised.⁷¹ Disputes between large investors and government are normally referred to international arbitration, in particular the International Centre for the Settlement of Investment Disputes (ICSID), a World Bank affiliate. The prospect of external legal redress encourages investors in a context where the rule of law is weak or partial.⁷²

This section has reviewed the evolution of Tanzania's IBE during the post-liberalisation period. Economic liberalisation preceded political liberalisation by a number of years, and was characterised by systematic resistance, *inter alia* from parastatal managers and workers. Reallocating economic opportunities to private sector actors from whom they had been originally appropriated met with more general opposition, the consequences of which continue to resonate to date. Formal rent creation for national development through tax and price mechanisms gave way to more chaotic processes of rent creation increasingly favouring private actors. The emerging IBE, though formally business-friendly, was comparatively weak in vital areas of infrastructure, regulatory capacity and conflict resolution.

Section 3 below summarises the current state of public goods provision in Tanzania.

⁷¹ The usual pattern is for the President, Minister or other senior official to show concern and promise to look into the issue. This may be a principal-agent problem (the agents do not have the desire or the leverage to enforce a higher level decision) or reflect the more strategic position of the source of the grievance (official, politician, business rival or associate), or both.

⁷² The WBI trend data for the rule of law in Tanzania suggest a steady state at a relatively low level of effectiveness. Legal sector reforms seem to be among the most difficult to implement.

3.0 Public goods provision in Tanzania

A major role of the state is to provide, maintain and regulate public goods.⁷³ State performance in generating public goods influences investment decisions and profitability. Here we summarise the Tanzanian state's performance in creating some basic economic and social public goods.

International comparative studies classify Tanzania as a poor to very poor performer in public goods provision. The World Economic Forum's Global Competitiveness Index (GCI) compares business views⁷⁴ 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 1: Selected rankings in the GCI 2008-09, 2009-10, Tanzania

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

Source: World Economic Forum 2009, 2010. <http://gcr.weforum.org/gcr09>

Businesspeople perceive economic and social infrastructure in Tanzania to be poor by global standards and their perceptions are backed up by the human development indicators listed, with the exception of primary school enrolments, which rose sharply after the turn of the century. The 2010 UNDP Human Development Report ranked Tanzania 151st out of 182

⁷³ According to the World Bank, market failures mean the state should invest in education, health, nutrition, family planning, poverty alleviation; social, physical, administrative, regulatory and legal infrastructure; taxation; and macro-economic stability. (World Bank World Development Report 1991, quoted by Hutchcroft 1997:652. The GOT invests in a much wider range of services than this.

⁷⁴ Respondents to the GCI questionnaire are local and foreign business owners and managers. See www.weforum.org.

countries (83rd percentile).⁷⁵ In a 2007 weighted index of 'globalisation', Tanzania ranked 147 out of 158 countries listed, placing the country in the 93rd percentile, compared to Uganda (85th) and Kenya (82nd).⁷⁶ National survey findings paint a similar picture.⁷⁷ Other general or sector-specific comparative indicators paint a similar picture of both absolute and comparative underperformance.

Section 4 considers the impact of the performance in creating public goods described above on Tanzania's IBE.

⁷⁵ See <http://www.hdr.undp.org>. This score was slightly better than that of 2008 (152 out of 179 countries, 85th percentile). The Human Development Index (HDI) is a weighted index based on life expectancy, education enrolments and GDP per capita. Tanzania's score is boosted by its relatively high primary enrolments.

⁷⁶ Swiss Economic Institute. <http://www.kof.ethz.ch/globalisation>. The higher the percentile the weaker the performance. Tanzania's percentile rankings were: 56th for political globalisation, 88th for economic globalisation and 94th for social globalisation. Economic globalisation indicators were based on trade flows, FDI and tax and non-tax trade barriers. Social globalisation was measured by telephone and ICT connectivity indicators, and political globalisation by number of embassies, membership in international organisations and being signatory to international treaties.

⁷⁷ For example, REPOA (2007) found that 60 percent of respondents in a national survey considered the condition of roads to constitute a 'major problem', and in rural areas the figure was 70 percent. Water and sanitation services are also perceived as major constraints by both businesses and households. The REPOA survey found that shortages of drinking water were considered a 'major problem' by 55 percent and 64 percent of urban and rural respondents respectively (REPOA 2007:9). The survey consisted of nearly 5,000 adults in 10 regions. Though road quality was seen to be improving in Dar es Salaam, many rural respondents perceived deterioration, suggesting lack of maintenance.

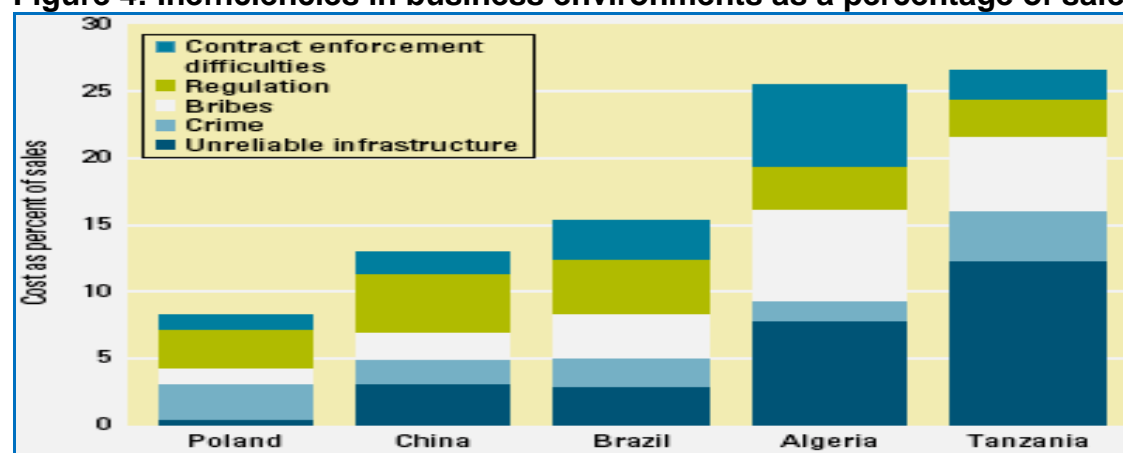
4.0 The impact of public goods provisioning on the Tanzanian IBE

Poor state performance in creating social and economic capital translates into disincentives to investors and threats to business profitability.⁷⁸ The main constraints on local and foreign investment in the industrial sector are the price and reliability of electricity, discussed above. 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 workers. Claims that foreign workers are taking jobs away from equally qualified Tanzanians are common.⁷⁹

According to the 2005 World Development Report, the cost of an inefficient business environment amounts to 25 percent of sales for Tanzanian companies (**Figure 4**), compared to only eight percent in China.⁸⁰ Unreliable infrastructure and bribes constitute the two main sources of costs, followed by crime, regulation, and contract enforcement.^{81 82}

Figure 4: Inefficiencies in business environments as a percentage of sales



⁷⁸ Measurable relationships between the two cannot be established using our methodology. We can only say that Tanzania's IBE is not very attractive to local or foreign investors.

⁷⁹ 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.

⁸⁰ World Bank 2005, cited by Wong et al. 2008: 208.

⁸¹ Costs reflecting inefficiencies in public health and education services (see **Table 1**) would have to be added to those listed in **Figure 3** to get a full idea of the total costs of Tanzanian businesses related to inefficient public goods provision.

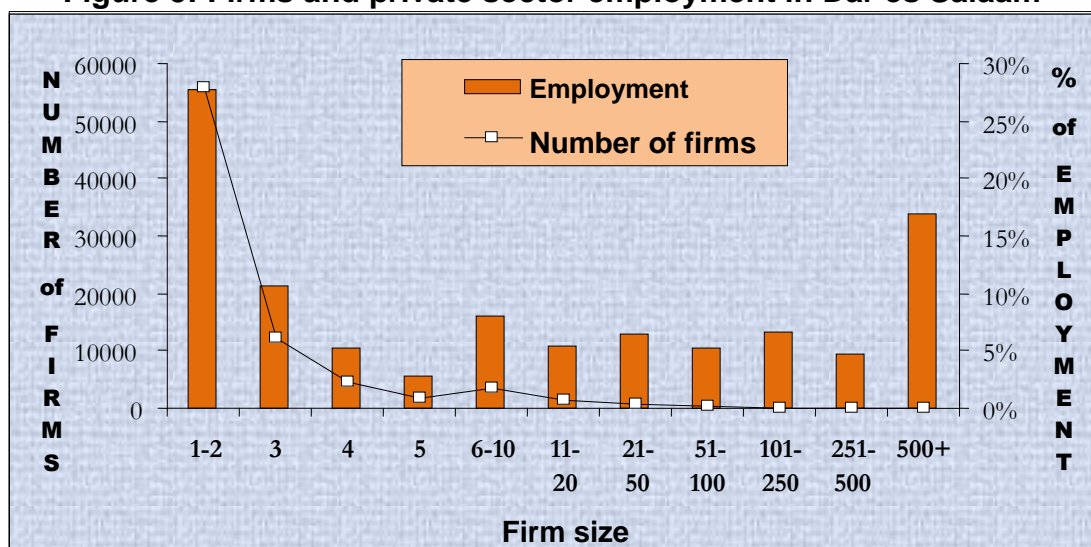
⁸² These costs knock percentage points off GDP growth: 'Tanzania's economy can grow at above 10 per cent per year if the government solves problems related to bureaucracy, infrastructure and energy supply.' Economist Intelligence Unit, cited by Lyimo 2008.

Source: World Bank, WDR 2005 cited by Wong et al. 2008.

We conclude that poor quality and poorly maintained economic infrastructure constitute serious obstacles to business productivity and competitiveness in Tanzania.

The high risks and transaction costs of doing business and of compliance with formal rules and regulations ensure that a large proportion of firms remain small and informal.⁸³ Larger firms can meet the costs of inefficiencies in the business environment through informal mechanisms, including tax evasion and bribing strategic state actors. Thus we observe many micro-enterprises employing one or two people, a number of large enterprises employing hundreds or thousands of staff, and a paucity of enterprises in between--the well-known 'missing middle' (Figure 5).

Figure 5: Firms and private sector employment in Dar es Salaam



Source: World Bank 2008b, from NBS 2003/05 Census of Business Establishments

The authors summarise the Dar es Salaam business census data as follows:

90% of all firms employ 4 people or less and about 7% of all firms have between 5 and 50 employees. Only a tiny fraction of firms (0.6%) has more than 50 employees. But even though the number of firms with more than 50 employees is tiny, these firms provide a substantial fraction (32%) of all employment...

North describes what he calls 'high transaction costs environments' thus:

⁸³ Hernando de Soto's Institute for Liberty and Democracy (ILD 2005, Executive Summary) claims that 'It is virtually impossible for 90% of Tanzanians to enter the legal economy.' 'Authorities have excessive and unregulated discretionary powers over applying laws and regulations—and Tanzanians do not have the ... mechanisms to defend themselves against ... arbitrary decisions' (pages 4 and 15).

With insecure property rights, poorly enforced laws, barriers to entry and monopolistic restrictions, the profit-maximizing firms will tend to have short time horizons and little fixed capital, and will tend to be small scale. The most profitable businesses may be in trade, redistributive activities, or the black market. Large firms with substantial fixed capital will exist only under the umbrella of government protection with subsidies, tariff protection, and payoffs to the polity.⁸⁴

So how has the Tanzanian state performed in putting in place and implementing an effective IBE? What sort of IBE has it created under economic liberalisation? Interviews, international comparisons and other research findings cited above suggest that Tanzania may still have a long way to go before it can be described realistically as a 'market economy' with the state playing an effective regulatory role and providing the necessary social and economic infrastructure for local and foreign private investment to flourish.⁸⁵

Our analysis suggests that ideological and structural forces dating back to the colonial period strongly influence post-independence trends in the overall IBE. The crucial feature of the post-independence political economy from the perspective of defining the contemporary IBE is the broad overlap of racial and class identities in which the majority African population is politically independent but the modern economy is essentially in the hands of non-Africans, whether Tanzanian nationals or foreigners. The Nyerere years saw an attempt at reversing this political-economic contradiction through large-scale nationalisations. Liberalisation saw the reversal of this virtual 'black economic empowerment' as Asian Tanzanians and foreign investors re-established their ownership and control of the modern economy.

There have been opportunities for 'wazawa' to occupy senior management positions in industry, commerce and finance, and numerous senior retired politicians and bureaucrats are on the boards of directors of large companies. The continued existence of parastatals in utilities (water, electricity), tourism, housing, insurance, pensions, ports and other sectors offers multiple opportunities for employment—and rent-seeking. In the following section we analyse this issue further.

Despite the obstacles to the creation of a robust IBE, the Tanzanian state has registered some major achievements from a 'liberalisation' perspective. Inflation has been reduced from over 30 percent a year to less than 10 percent by increasing tax collection and reducing budget deficits. The banking sector no longer underwrites the losses of the parastatals and agricultural cooperatives to the same extent that it used to⁸⁶ and privatisation has attracted substantial foreign investment into key sectors. Clearly those who run the Tanzanian state have some capacity to implement reforms, and

⁸⁴ Douglas North. 1990:67. Cited by World Bank 2008b.

⁸⁵ Though discussions of the investment climate often assume that FDI is the main constraint, there are few countries in which sustained growth has not been based primarily on internal/national savings and investment.

⁸⁶ It would be useful to know the total volume of private bank loans covered by government guarantees. Examples include loans to cooperative unions to purchase export crops such as cashewnuts, coffee and cotton and a TShs 60 billion syndicated loan to the Kagera Sugar Company, with a rumoured political dimension.

to confront opposition to reforms, but its apparent failure to put in place a robust IBE serving to stimulate private saving and investment suggests there are still serious obstacles facing the reform process. We should not assume that the reform agenda is a one-way street: it can be resisted and reversed.

5.0 Revenues and public expenditure

To understand what those obstacles are, we turn to the performance of the Tanzanian state in collecting revenue and investing in public goods. These functions, we argue, largely explain the shortfalls in public goods provision described above. The Tanzanian state's capacity to create public goods in support of social and economic development is a function of its capacity to raise revenue efficiently and spend it wisely. These state functions have all been the object of major reform programmes during the liberalisation period, some of which have been discussed above.

Figure 6 sets out the dimensions of revenue collection and spending that most affect the quality, quantity and distribution of public goods.⁸⁷ Regulation (5) includes macro-economic management and specific functions that affect individual businesses in their interaction with the state, including licensing, obtaining work permits, land titles, and so on.

Below we summarise the main issues. The discussion is intended to highlight the processes and procedures that influence efficiency, since these are germane to our overall theme. There is no simple way to measure the value of public goods created/foregone as a result of the mechanisms discussed below, though we hope to be able to generate some insights.

Figure 6: Factors determining the creation of public goods

Determinants	Effects on public goods		
	Quantity	Quality	Equity
1. Revenues: tax compliance, evasion/exemptions; fiscal & financial fraud; natural resources valuation & exploitation.			
2. Intersectoral spending: level of consumption, priority versus non-priority public goods expenditure.			
3. Intrasectoral spending: spending on administrative overheads & central establishment vs front-line services.			
4. Public procurement: cost, quality and efficiency of public goods procured.			
5. Regulation: macro-economic management; pricing public goods; public utility management; rules enforcement.			

Note: Shading denotes direct impact of the various constraints (dark=major impact).

5.1 Revenue collection

Under-collection of revenues limits state capacity to produce public goods and perform other services. Tanzania collects a relatively modest proportion of GDP in taxes, reflecting the narrow tax base, the subsistence and informal nature of much of the economy,⁸⁸ and the non-payment of taxes

⁸⁷ Not all the relevant constraints are revenue and budget related, as explained below in the text.

⁸⁸ One estimate suggests that about 60 percent of the country's GNI is informal, including informal activities in agriculture (Skof 2007 citing Schneider 2004). The Instituto Libertad y Democracia (ILD 2005) estimates that the informal economy has assets worth USD 29 billion. Economic crisis in the 1970s and 1980s led to an increase in informalisation of both primary and secondary economic activities in both rural and urban areas (Gibbon 1995). In Dar es

through legal (tax exemptions) and illegal (tax evasion) means. **Table 2** summarises the Tanzania Revenue Authority's (TRA's) performance from 2003/04 to 2009/10.⁸⁹

Table 2 reveals quite a substantial (43%) increase in the tax take as a proportion of GDP over the period 2003/04 to 2009/10. For sub-Saharan Africa the tax take was just over 18 percent of GDP in 2005.^{90 91}

Table 2: Tanzania revenue performance 2003-2007, TShs billion

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Collection	1,405	1,695	2,041	2,577	3,333	4,185	4,591
Annual growth (%)	23	21	20	26	29	26	10
GDP at market price	13,039	14,968	16,857	18,915	22,350	22,153	25,790
Revenue/GDP (%)	11.1	11.6	11.8	12.5	14.9	16.0	15.9

Source: Ambali 2008; MoF website accessed 17/09/10

Many agree with Moore that: 'States that rely on broad taxation have much greater incentives to practice better governance.'⁹² In the Tanzanian case this argument does not stand up to close examination. In 2006, a mere 286 large corporate taxpayers accounted for over 70 percent of domestic taxes.⁹³ Most Tanzanian adults do not pay taxes on their income, either because they are too poor, too distant from the tax-collector's dragnet, and/or successful in tax evasion. **Textbox 1** reports citizens' views on compliance with local (district) taxation.

Salaam, over a third (36 percent) of the labour force was employed in the informal economy at the turn of the century (Skof citing NBS 2001).

⁸⁹ Many line ministries also collect revenue from the public. Retention rates vary between 25% (Energy and Minerals) to 100% (education, health, foreign affairs). The 'many revenue retention schemes ... [raise] serious fiduciary issues regarding the proper accounting and transmission of these receipts.' (PEFAR 2010:37).

⁹⁰ Fjeldstad 2009 citing Gupta and Tareq 2008. The 2008 PEFAR gives a higher tax/GDP ratio: 'At around 16% of GDP in 2007/08, and projected at around 18.5% of GDP in 2008/09, domestic revenue in Tanzania is still below the average for Sub-Saharan Africa, and not high by international standards.' (World Bank 2009:5). The 2009 PEFA gives a 2008/09 figure of 15.9% of GDP.

⁹¹ Green (1979:39) cites a figure of 15% of GDP collected in taxes in 1961, rising to about 20% in 1966 and 32-35% in 1974.

⁹² Moore 2007:1.

⁹³ Foreign Investment Advisory Service 2006:102. For FY 2009/10, import taxes accounted for 36 percent of total revenues, VAT for 22 percent and taxes on income for 30 percent. The heavy concentration of tax payers in large companies suggests that the state should be beholden to big business, not to the general population. The other big 'tax payer' is foreign aid, discussed below.

Textbox 1: Citizens' views on taxation by local authorities

In a survey in four rural and two urban councils, 1,260 adult respondents were asked about reasons for tax compliance and non-compliance. Nearly three respondents in five (59%) declared that they paid some taxes, fees or charges, the most common mentioned being property tax, water charges and non-fee school contributions. Asked why people pay taxes, nearly half (46%) answered 'to avoid disturbances' and nearly a quarter (23%) because 'they anticipate public services.' Nearly three out of five (fifty-eight percent) of respondents thought that the most serious problem hampering tax collection ... is that taxes collected are not spent on public services. When asked: 'Are tax revenues collected in the area used to provide social services?' a third of respondents (34%) said they didn't know, while 36% said 'not at all', a fifth (20%) said 'partly', and less than one in ten (9%) said 'yes, mostly'.

In areas growing export crops, cesses and taxes collected from small farm households are largely consumed by local government and crop board officials and local councillors, rather than invested in public goods such as road repairs and maintenance that would reduce marketing costs.

Source: Fjeldstad 2006, United Republic of Tanzania and the World Bank 2007

The upward revenue trend can only be considered collectively beneficial if taxes are collected fairly and efficiently and if additional revenues are turned into public goods efficiently, effectively and with some degree of equity. If tax revenues are dissipated on wasteful, non-priority spending it would be preferable from a public policy perspective to leave the income in private (individual and business) hands, to spend or reinvest according to individual preferences. The quality of public spending at the national level is discussed below.

A World Bank survey found that nearly three-quarters (73%) of Tanzanian businesses surveyed considered 'tax rates as a major or very serious constraint on enterprise performance and growth.'⁹⁴ The World Bank and PriceWaterhouseCoopers ranked Tanzania's tax regime 104th out of 178 in terms of the ease of paying taxes.⁹⁵ Since taxes on business reduce profits, it is not surprising that businesses try to evade taxes in numerous ways. In another survey, 'managers in Tanzania estimated that the typical firm in their area of activity reported 69 percent of its sales for tax purposes.'⁹⁶ Levin and Widell (2007) found that 'local traders greatly underreport the value and quantity of imports.'⁹⁷

The World Bank does not consider that taxes on enterprises are generally excessive, at least for larger companies: 'The marginal effective tax rate in Tanzania is comparable with those in South Africa, and Zambia... it is excessive only for non-VAT registered medium and small scale enterprises, for which it can be as high as 50.5%.'⁹⁸

⁹⁴ World Bank 2004, cited by Wong et al. 2008:232-3. The findings apply for medium, large and very large enterprises. Tax administration was also a serious concern.

⁹⁵ World Bank and PriceWaterhouseCoopers 2008, cited by Sebastian 2008.

⁹⁶ World Bank 2007, cited by Wong et al. 2008:233. In Kenya and Uganda the comparable figures were 86% and 77% respectively.

⁹⁷ Levin and Widell 2007. Tax evasion is lower in trade between Kenya and the UK compared to Tanzania and UK, indicating that 'tax evasion is more serious in the Tanzanian customs authority.' Cited by Sebastian 2008.

⁹⁸ Foreign Investment Advisory Service 2006.

According to the IMF, the Tanzanian private sector believes that TRA has improved tax policy and collection in recent years (prior to 2006). However:

... 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...⁹⁹

Tax exemptions may be justified from a public policy point of view, for example, exemptions for basic drugs, faith-based and humanitarian relief NGOs. Other legal exemptions may be less easily justified, including those enjoyed by donor agencies.¹⁰⁰ Yet other exemptions reflect manipulation of procedures by officials with personal agendas.¹⁰¹ According to the Public Accounts Committee, tax exemptions totalled the equivalent of USD 769 million in FY 2006/07 and USD 538 million in FY 2007/08. It is not possible to assess which exemptions are justified and which are not.¹⁰²

Textbox 2 relates how an audit company receives nearly two-thirds of the gold royalty paid to the GOT. Hired by BOT, Alex Stewart occasioned estimated losses of USD 68m over four years.

There is a widespread popular perception that the large, foreign gold mining companies are paying minimal taxes as a result of negotiating confidential contracts with government officials, with a strong (but unproven) suspicion of corruption. In fact, the issue is more complicated than it is portrayed in public discourse, and the large mining companies do, of course, pay taxes.¹⁰³

⁹⁹ Foreign Investment Advisory Service 2006: 101-2. Fjeldstad (2003:172) relates how corruption still thrives among TRA officials 'even with relatively respectable salaries and working conditions.'

¹⁰⁰ See Fjeldstad 2009 for a strong argument in favour of aid agencies paying taxes, thereby 'practicing what they preach'.

¹⁰¹ For example, Africa Intelligence No. 1290 (2010) reported suspected collusion between TRA officials and 'fraudsters and tax evaders' importing goods through Dar es Salaam port, as a result of which the Commissioner of Customs and Excise Generosi Bateyunga, had been 'transferred to other functions', while a number of senior TRA officials were also being investigated as a result of an internal audit.

¹⁰² Lyimo 2009. The 2006/07 figure was the equivalent of 30% of projected tax revenues. An attempt by the treasury in the 2009/10 budget session to remove tax exemptions from religious organisations and NGOs was successfully opposed by parliamentarians, at an estimated loss of over TShs 4 billion.

¹⁰³ According to Mwanyika (2008) the big mining companies paid taxes of USD 429 million from 1997 to 2007, equivalent to 10% of the value of total mineral production. (Information provided by interviewee C).

Textbox 2: An example of legal but predatory tax exemptions

In 2003, the Bank of Tanzania hired **Alex Stewart (Essayers)**, a US company, to audit gold production and export. The company received a fee of 1.9 percent of the marketed value of the audited gold exports, leaving 1.1 percent for the BOT. Alex Stewart also enjoyed tax free status granted by the **Minister of Finance, Basil Mramba**. The royalties were worth \$0.75m a month. For its first two-year contract the company therefore netted \$18m tax free (TShs 23 billion), and a total of \$31m from 2003-06. In late 2006, Alex Stewart presented an apparently critical audit report to BOT but the report was never endorsed by BOT or its recommendations acted upon. The gold exploration and mining industry believed Alex Stewart was an unnecessary addition to mining regulations. A company hired to control tax evasion itself paid no taxes.

Source: Kisaka 2006; Lyimo 2006

The Mining Policy (1997) and Mining Act (1998) offered generous incentives to mining companies. One of the main bones of contention was the 3 percent royalty paid by the mines, which critics consider too little. Foreign investment in large-scale gold mining amounts to perhaps USD 3 billion over the last decade, and it is by no means clear that all mines will be profitable under a tighter fiscal regime. The high stakes involved suggest that mining regulation, including taxation, deserve more detailed study from an APPP perspective.¹⁰⁴

In recent years, the Bank of Tanzania has been implicated in large-scale fraud. In one case, the BOT made payments of at least USD 118 million to a South African company to cover losses incurred by Merimeta Ltd, a gold mining and processing joint venture between the Tanzanian army (TPDF) and a South African partner.¹⁰⁵ In September 2006, international auditors Deloitte-Touche wrote to the governor of the BOT 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). The Meremeta and EPA examples involve large net losses of foreign exchange earnings with indirect effects on the budget and the creation of public goods.¹⁰⁶

Textbox 3: The Tanzanian military: A law unto itself?

The Tanzanian military provides one of the most vital public goods: defence against potential external aggression and internal subversion/civil war. Since defeating **Idi Amin's** invading forces in **Kagera Region** in 1979, the army has not had to play either of these roles, but remains an important component of the ruling coalition, with apparent autonomy in initiating projects with a high *rentier* component. These include the **BAE radar** and numerous other military procurement deals (see text); **Meremeta** gold purchasing and mining; and, more recently, the distribution of

¹⁰⁴ See Cooksey 2008 for a summary of the issues. Arguably, the main tax evaders are the small-scale mining operations and the traders who smuggle their product out of the country.

¹⁰⁵ Economist Intelligence Unit, August 2007. A less well-known example involves the Kagera Sugar Company. In 2004 the BOT guarantees a syndicated loan from Tanzania's three pension funds and from four banks which the now privatised sugar company has been unable to service. Losses to the BOT to date are estimated at \$75m.

¹⁰⁶ The excessive cost of the Bank of Tanzania's Twin Towers (see text) represents yet another (and larger) waste of public resources, although there is at least something to show for the investment, unlike the two examples mentioned above.

power tillers under the *Kilimo Kwanza* agricultural strategy. In addition, there is evidence that the national budget is particularly generous to the army in recurrent as well as development (capital) expenditure, though the issue is rarely discussed by parliament, civil society or donors (**Appendix 2**).

5.2 Natural resource rents

The sustainable exploitation of natural resources is a major potential boost to growth and development. There is a widespread view that Africa's bounty of natural resources constitutes a curse that may serve to alienate the people from the state or, in the worst cases, precipitate state failure and civil war. Spreading revenues to avoid such conflicts may institutionalise political corruption and reduce the chances that the state will promote development through the production of public goods.¹⁰⁷ Either way, turning resource rents into developmental outcomes is problematic.

Space prevents a full treatment, but we may cite some examples of natural resource rent capture with negative implications on revenue collection and public goods provision.¹⁰⁸ In the first, undervaluation and non-taxation of forest products in Tanzania lead to huge revenue losses. According to TRAFFIC (2007), an 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.

Undervaluation in setting royalties is another major source of revenue losses. China has rapidly emerged as the fastest growing importer of hardwood from Tanzania, accounting for all indigenous hardwood logs and three-quarters of processed hardwoods between July 2005 and January 2006.¹⁰⁹

Fishing and hunting licensing and regulation are other sources of major natural resource rents that are captured by officials and private actors, with negative consequences for the treasury, local livelihoods and the sustainable exploitation of the resources.¹¹⁰

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. The undervaluation of public assets during privatisation has also come in for widespread comment as a source of major revenue losses.¹¹¹ Lastly, 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

¹⁰⁷ The archetype is, of course, Nigeria, where power outages and fuel shortages are common, and oil revenues are allocated to states to maintain the integrity of the nation. See Kelsall 2008 for a summary.

¹⁰⁸ Not to mention environmental destruction, loss of biodiversity, contributions to global warming, and lost opportunities to reduce rural poverty.

¹⁰⁹ Milledge et al. 2007. 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.

¹¹⁰ See Policy Forum (2009) for a summary.

¹¹¹ 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.

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.¹¹² The state continues to build houses for senior officials.

5.3 Aid transfers

Financial aid (budget support) has accounted for 30-40 percent of Tanzania's total budget in recent years. Critics maintain that budget support substitutes for taxes on businesses and natural resource rents, thus condoning or actually encouraging fiscal laxity among aid recipients (an example of 'moral hazard').¹¹³ Knack found that corruption is positively correlated with dependence on aid.¹¹⁴ The leakages and budgetary misallocations that undermine the budget process sketched below affect both the local and the foreign components of the budget.¹¹⁵

Despite the move towards budget support, large amounts of donor aid are still channelled into programmes and projects to address weaknesses in public administration and governance, including support for parliament, civil society and the media. There is widespread evidence that these initiatives, while addressing legal and administrative weaknesses, are systematically undermined by the informal processes of patronage and rent-seeking that we are investigating.¹¹⁶

Foreign aid can influence the processes of political patronage in a number of ways. The overall increase in aid volumes in recent years and the growth in particular of general budget support as the main aid modality may lead political looters to focus on the budget and aid as a major source of rents. (This would not, of course, preclude off-budget initiatives). Aid is said to strengthen the executive at the expense of parliament.¹¹⁷

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 GOT to return the missing money.¹¹⁸

¹¹² Cooksey 2005b. 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 to date (mid 2010).

¹¹³ The World Bank has calculated that aid to African countries reduces tax income by an average of 10 percent (Fjeldstad 2009 citing Devarajan, Rajcooner and Swaroop 1999).

¹¹⁴ Knack 2001. Knack argues that aid contributes to corruption, not the other way round.

¹¹⁵ 'Fungibility' means that donor budget support finances the same activities and suffers from the same leakages as locally collected taxes, a point heartily denied by both sides.

¹¹⁶ 'The government has effectively had a "*carte blanche*" since 2000 as the conditions are being accepted, yet not being met if they are not in line with the government's own development agenda' (Tilley 2009:15). See Policy Forum (2009) for a discussion covering the years 2006 and 2007.

¹¹⁷ See Oxford Policy Management et al. 2004 for the Tanzanian case and Moore 2007 and Fjeldstad, 2009b for a general formulation.

¹¹⁸ Jansen 2009. The original furore concerning the publication of this report died down after its findings were challenged by the GOT, 'errors' were discovered in the report, and the

Despite their large budgetary contributions in recent years, donors have generally failed to leverage corruption control or improved governance.¹¹⁹ Some observers believe that in recent years donors have been overly 'soft' on the GOT in terms of sanctioning bad governance and grand corruption. 'Local ownership' of policymaking and implementation is a key principle of budget support, the major current form of financial aid. Local ownership, as well as policy harmonisation, aid coordination and 'defragmentation', are enshrined in the 2005 Paris Declaration on Aid Effectiveness.¹²⁰

The mechanisms described above reduce the total tax take by the Tanzanian state. If tax exemptions, extortion among tax collectors, the under-collection of natural resource rents, and the other causes of low revenue collection listed above could be addressed, the GOT would be able to collect a significantly greater proportion of GDP in taxes. However, according to the IMF, even a tax take of 15 percent of GDP--which the GOT has achieved--is a 'reasonable minimum level for lower income countries to secure the financing of basic government tasks such as law and order, health and education.'¹²¹ Yet we saw above that Tanzania's relative performance in creating these public goods is extremely poor by international, including sub-Saharan African, standards. To understand why we have to turn to examine the efficiency of public expenditure.

5.4 Public expenditure

Creating public goods is one of the state's main functions if growth is to be achieved and sustained. Public goods require central government planning, budgeting and coordination, but there are strong indications that the central government absorbs an excessive amount of total spending to perform these functions, causing large-scale *waste* and *inefficiency*. Waste includes the selection and over-specification of non-priority public investments, while inefficiency means that public goods are produced at excessive unit cost (low value for money). Finally, *inequity* in public expenditure means that the neediest are not the main beneficiaries of the limited services provided. Rather than attempt to document these propositions in detail, we present some examples of what we claim to be general phenomena.

Norwegians eventually agreed to the reimbursement of a token amount. In parallel to these events, the GON launched a large, high profile, forestry protection programme (USD 70 million) under the 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.

¹¹⁹ For example, the World Bank and other donors tried unsuccessfully to get IPTL and the radar deal halted. In the case of IPTL, a rash memo by the Bank's Country Director to the PS in the Ministry of Finance led to his ouster when the GoT complained to Washington.

¹²⁰ For a discussion of aid in relation to governance and corruption control in Tanzania, see Cooksey 2010b.

¹²¹ Fjeldstad 2009:196, citing IMF 2005.

5.4.1 Public spending preferences

It is difficult to obtain a full picture of GoT spending patterns and trends. While budgets are readily available, detailed data on actual expenditure are difficult to obtain. According to the 2009 PFMP Report:

‘... the actual composition of the MDAs’ budgets are (sic) not published in the course of the year. These details are also excluded from the government final accounts, as the final accounts and government financial statements are very brief, only summarizing government transactions. The lack of an internationally-accepted functional classification in the budget, as well as the presentation of recurrent and development expenditures in different formats (very detailed for recurrent expenditures and very brief for development expenditures) reduce the value of the budget documentation.’¹²²

Significant deviations of actual from budgeted expenditure are the rule.¹²³ For example, between 2002/03 and 2006/07 deviations in the recurrent budget at the vote level exceeded 20 percent, leading one donor to comment that:

Donors perceive that these high recurrent budget deviations relate mainly to the power and influence of individual MDAs within the political/bureaucratic power structure. Donors have not been able to engage government in any meaningful way about the ... issue.¹²⁴

According to OPM et al., ‘the Executive has a dominant role in setting the budget and is subject only to a rather formalistic scrutiny and oversight by Parliament.’¹²⁵ Interviewee J, with experience of the workings of the MOF, recalled that:

‘in the early 2000s donors picked up on increases in defence spending and initiated a discussion with MoF who produced some figures to show that it wasn’t all bad. These days they don’t appear to do the budget analyses that they used to do and are at more of a distance from government.’¹²⁶

¹²² GoT 2010:5. A study for the International Budget Partnership graded the 2007 Tanzanian budget on a list of 123 indicators. On an A-D scale, the country’s budget scored 46% Ds, 15% Cs, and 39% As and Bs. Tanzania still ranked a respectable 52 out of 85 countries surveyed.

¹²³ Deviation = absolute deviation as a percentage of the original budget. Deviation can be either over- or under-spending on a particular vote. Sub-vote level deviations were 23% during this period. There are two types of deviation. Within ministerial votes deviations are *reallocations*, between ministries they are *virements*.

¹²⁴ DFID Tanzania 2007.

¹²⁵ OPM, CMI and REPOA 2005:9. According to this source ‘the advent of multi-party democracy has strengthened the role of the party and tightened party discipline.’

¹²⁶ Email correspondence with interviewee J, 07/08/09.

Like government, donors tend to exaggerate the success of their joint policy commitments to growth, poverty reduction and improved governance.¹²⁷ Successes are trumpeted and problems underplayed. Growth is acclaimed, even though it has not been accompanied by poverty reduction (inaccurate claims to successful poverty reduction are not uncommon) and is largely driven by investments in natural resources (gold, tourism). Major donors congratulate the government on its successes in fighting corruption (though there is always 'more to be done').¹²⁸ In such an atmosphere it is likely that claims for the success of budget support will continue for some time, despite the growing evidence to the contrary.

Although open to the criticism of subjectivity, it is reasonable to argue that the policies that formally guide the country and its development partners are clearly not advanced by waste and excessive luxury consumption in a context of widespread poverty and acute shortages of public goods of all kinds.¹²⁹ This argument has also been advanced in relation to other examples of waste, including the amount of international and in-country travel undertaken by the top political and bureaucratic cadres, and the allowances earned from attending meetings of all types, mentioned above.¹³⁰ Without being able to quantify the value of potential development resources dissipated through luxury and other consumption by strategic state actors, we suggest that the overall negative impact of legal waste is massive and certainly rivals that of other forms of rent-seeking.

A review of the relevant literature suggests that there is inadequate evidence on which to base a confident assessment of the *efficiency* of public goods creation in Tanzania, that is, value for money, even in the broadest terms. According to the 2008 PEFAR:

'Data on efficiency are not commonly produced in many sectors, and more broadly, the budget process in Tanzania seems largely unconcerned about this issue, in terms of both budgetary allocation and management. However, *given the huge financial needs and the limited resources*, increasing efficiency is an important tool for achieving a better budget policy.'¹³¹

¹²⁷ A somewhat dated example: 'On balance ... Tanzania's experience in integrating external assistance into national systems has been extremely positive and has undoubtedly made a significant contribution to the realignment of public spending with poverty reduction goals' (Naschold and Fozzard 2002:39).

¹²⁸ See our introduction to the Tanzanian IBE.

¹²⁹ It is worth remembering that Tanzania is poor *even by African standards*, with a GNI per capital of only 60% of the sub-Saharan African total in 2006 (UNDP 2008).

¹³⁰ Including study tours, short courses, meetings of international organisations and donor agencies, formal state-to-state visits. The number of presidential trips abroad and the size of official delegations accompanying him are frequently the subject of negative commentary. See Cooksey 2010a for a full treatment.

¹³¹ World Bank 2009:37. Emphasis added. The indicator 'Availability of Information on Resources Received by Service Delivery Units' is awarded a 'D' grade in the PEFAR. 'Information on resources received by front line service delivery units is mostly lacking. Special surveys were undertaken within the last three years, but their results and methodologies used have not been published.' This quotation refers to the large number of

That efficiency is not a major concern of the budget process suggests that widespread inefficiency goes unnoticed, unremarked, and unsanctioned.¹³² The point made by PEFAR relates specifically to the efficiency of basic services delivered to the public,¹³³ but the issue is of more general relevance. The same source claims that:

'Inequity in budget allocations persists across LGAs ... There is little evidence of progress toward addressing the inequity in key sectors such as of (sic) health and education.'¹³⁴

The 2009 PEFAR estimated that: 'the top ten LGAs in the health sector [received] per capita allocations that are five times greater than the bottom ten and in the education sector the disparity is eight times.'¹³⁵ It is common for social services to be disproportionately 'captured' by the better off members of society. The ways in which prominent politicians and officials, informally organised political groupings, *ad hoc* coalitions, and private sector interests influence public spending patterns are (perhaps understandably) under-researched areas.

5.4.2 Capital versus recurrent spending

The budget is divided into an investment or capital component and a recurrent component that consists of salaries and 'other charges'. While there is no formula to determine what the ratio of development to recurrent spending should be, the 2008 PEFAR identified a 'relatively low level of investment'--25 percent of all spending in FY 2008/09--and concluded that 'the declining trends are worrying signals.' The Medium Term Pay Policy (MTPP) projected a total wage bill of five percent of GDP in 2007/08, but the actual outturn was 9.1 percent, and 9.5 percent in 2008/09 (including allowances). PEFAR concludes:

'In order to reach the government target of economic growth of 8-10 percent over the medium term, [...] it is important that the government improve the growth orientation of the budget by increasing the share of public investment.'¹³⁶

uncoordinated Public Expenditure Tracking Surveys (PETS) that have been undertaken at district and lower levels in recent years.

¹³² This is not a uniquely Tanzanian problem. David Halpern (2009:23) talks of 'the quiet scandal of [British] public policy where billions are spent but not unspent if they don't deliver.' But Britain is a rich country...

¹³³ According to the 2009 PEFAR:15 'There is little available information on the delivery of resources to service delivery units.'

¹³⁴ World Bank 2009: 38. The explanation for inequity in education and health proffered is that: it 'is driven by uneven personnel emoluments budgets stemming from the difficulty of attracting staff to particular LGAs.' This explains why 'Annual personnel emoluments expenditures per 7-13 year old vary from TShs 33,000 to TShs 175,000 across LGAs.' We would define equity/inequity in much broader terms than these to include, for example, medical treatment abroad, which is accessible to only a few senior Tanzanian officials.

¹³⁵ 2009 PEFAR, page 18.

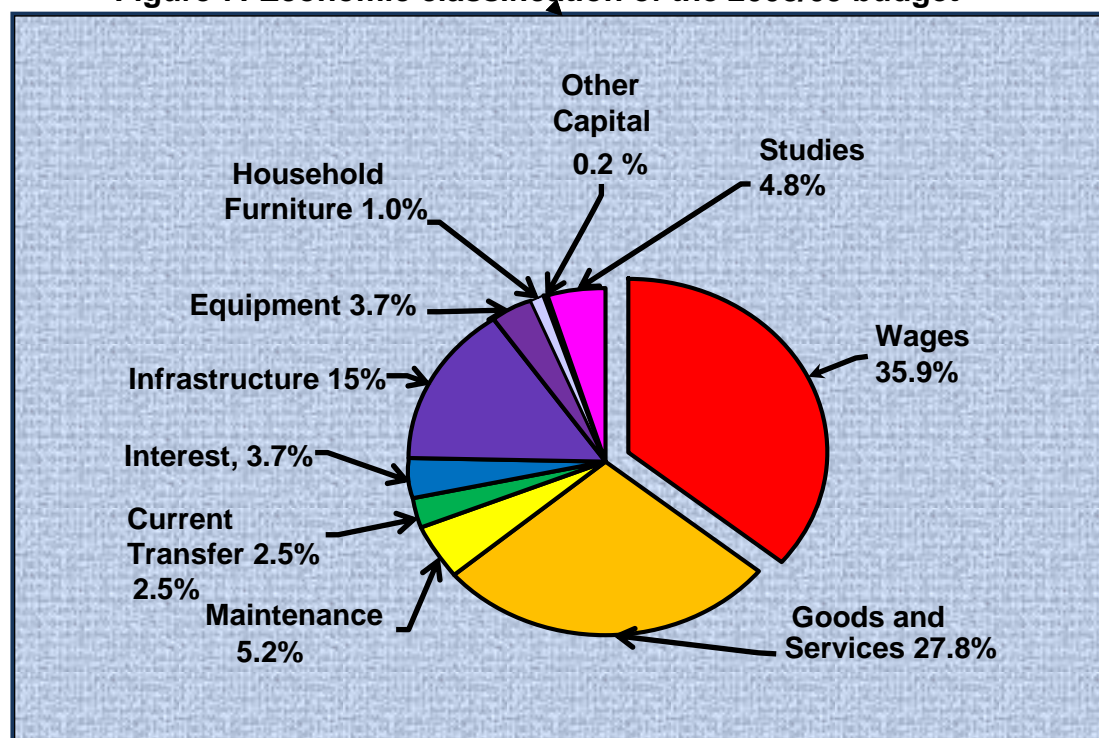
¹³⁶ PEFAR 2009:15. We may ask whether civil servants provide value for the *nearly one tenth* of the nation's wealth that they absorb in salaries and allowances.

As a result *inter alia* of wage and allowances inflation, there has been a rapid increase in the share of government consumption in GDP, which has grown at more than 10 percent per annum since 2000.¹³⁷

Despite the relatively low level of development spending, it is common for the development (capital) budget to be underspent at the end of the financial year. For example, in FY 2007/08 the three key infrastructure ministries--the Ministry of Energy and Minerals, Ministry of Water and Irrigation, and the Ministry of Infrastructure Development--underspent their development budgets by 91, 43 and 50 percent respectively.¹³⁸ These figures may exaggerate the actual underspend, but it is a serious comment on the efficiency of the Tanzanian state that resources earmarked to reduce the chronic shortage of public social and economic infrastructure may remain unused.¹³⁹

Public expenditure patterns can also be analysed by economic classification. **Figure 7** disaggregates the total budget (capital and recurrent) for 2008/09.¹⁴⁰

Figure 7: Economic classification of the 2008/09 budget



Source: PEFAR 2008:7

Wages (including allowances) accounted for just over a third (36%) of the total budget, followed by goods and services (28%), infrastructure (15%),

¹³⁷ Unpublished WB estimates (2009).

¹³⁸ PEFAR 2009:7.

¹³⁹ Collier (Gottselig 2009:4) stresses the importance of maintaining or raising the level of public investment as a means of limiting the impact of the current global credit crisis, *at the expense of public recurrent expenditure*.

¹⁴⁰ We do not have actual expenditure figures beyond 2007 (see below).

maintenance (5%) and 'studies' (5%). Wages are ring-fenced against predation,¹⁴¹ but with the exception of interest the other spending areas are all potentially fungible, either through reallocation (moving money between votes) or predation. This is nearly 60% of total spending in 2008/09, or TShs 4.3 trillion (USD 3.3 billion). A sample of the predation is captured in the CAG's annual report, but much goes undetected, and unpunished (see **Table 4** below).¹⁴²

The budget for goods and services procurement (28 percent of the budget, *Shs 2 trillion*, USD 1.5 billion) is vulnerable to systematic plunder by government officials. Decentralising procurement to individual MDAs has incentivised various types of predation. As well as rigging tenders for large projects, smaller contracts are awarded to companies belonging to government officials and their cronies.¹⁴³ Though unresearched, it is likely that the growth of the national budget over the last decade has stimulated the proliferation of such companies, while at the same time proving lucrative for existing (mostly Asian-owned) companies.

¹⁴¹ Wages and salaries increased from 5.1% of GDP in FY 2006/07 to 6.0 in 2008, an 18% rise (PEFAR 2009:8). Allowances, which are highly unevenly distributed, distort the wage structure.

¹⁴² Government officials are frequently sacked, dismissed or prosecuted, but these punishments are generally meted out for the sin of attempting to 'eat alone' rather than for eating per se.

¹⁴³ For example, in May 2010, Tanzania hosted the World Economic Forum (WEF). According to the Tanzania Corruption Tracker System, State House spent TShs 367 million (about USD 250,000) on an evening's gala entertainment for the WEF delegates. The contract between the President's Office and Roundtrip Event and Production Tanzania (a division of Scanad Tanzania Limited) was leaked to the press. It gives the following partial breakdown of costs, worth about USD 180,000:

Cost of entertaining WEF delegates in Dar es Salaam, May 2010

Cost item	TShs
Invitations	8,250,000
Décor and venue	85,800,000
Sound systems	19,800,000
Special lights	39,600,000
Special video system hire	13,200,000
Special graphics	6,600,000
Entertainment off stage	13,200,000
Entertainment on stage	15,180,000
Communication	3,300,000
Power generator hire*	19,800,000
Show management/staff costs	26,400,000
Event/project management fees	33,000,000
additional elements	27,060,000
Subtotal	261,030,000

*The Conference venue (Milimani City) has its own stand-by generator.

Source: Tanzania Corruption Tracker System: www.corruptiontracker.or.tz

Seminars and workshops can be charged for but do not actually take place, or can be over-invoiced, and so on.¹⁴⁴ Attending workshops and seminars takes officials away from their work stations and arguably adds little to the stock of public goods in terms of greater technical or administrative capacity. Ministry officials who control the training and workshops budgets dispose of an important patronage resource.

'Studies', that account for nearly five percent (*Shs 340 billion*) of spending, are a target for systemic rent-seeking between officials and consultancy companies and individual consultants, academic departments and private think-tanks, and 'civil society' organisations. Patronage takes the form of employing favoured companies, teams of consultants, and individuals in exchange for kickbacks, which can be hefty as there is no product that the public need know about. The outputs may be well written, badly written, a rehashed report from a previous 'consultancy', or there may be no report at all.¹⁴⁵ World Bank and other lending agency projects offer many opportunities for patronage of this kind.¹⁴⁶ Though substantial, these rents pale into insignificance compared to those derived from infrastructure, procurement, and construction.

A recent study identifies the Ministry of Finance as the key locus of executive influence over public spending decisions:

The power of the Executive in making budget decisions is embedded in the dominance of the Ministry of Finance in budget preparation. There remains a concentration of power in the hands of a few senior policy-makers in the Executive who are actively involved in the policy formulation stage and have the power to preside over the entire budget preparation process. The consequences of this strategic positioning results in (sic) the allocation of public resources to support key interests.¹⁴⁷

5.4.3 Intra-sectoral spending

Spending on basic services has increased significantly since the turn of the century as a result of debt relief, enhanced tax collection and additional aid commitments, particularly budget support. For example, between 2000 and 2006 public expenditure on healthcare *tripled* in nominal terms, reaching

¹⁴⁴ See Policy Forum 2009b and Cooksey 2010a for analyses of the allowances culture in Tanzania. Jansen 2008:15 describes a two-day workshop for 50 participants which was costed at \$51,000 by the ministry involved. The Norwegian embassy eventually paid \$21,000, a saving of nearly 60%. At this rate, the goods and services budget could be pilfered to the tune of Shs 1.2 trillion (USD 890 million).

¹⁴⁵ One recent consultancy worth TShs 62 million and awarded to a senior academic economist was 'to Study (sic) on (sic) the Application of ICT improving (sic) livelihood of the poor and supporting growth in general.' Eight assignments worth over TShs 405 million had similar surreal titles (Tanzania Procurement Journal Supplement 2010).

¹⁴⁶ This section is based on long personal experience as a university lecturer, consultant, researcher, and civil society sympathiser. For WB consultancies, the rule is: don't tender unless you have the inside track. Enterprising politicians have their own businesses and favoured companies. A former Prime Minister (name withheld) used to channel consultancy work to 'his' company. Interestingly, it was not run by relatives or fellow tribesmen.

¹⁴⁷ Tilley 2009: 11-12.

USD 428 million (COWI et al. 2007: 91).¹⁴⁸ However, much of the increase in health spending in recent years is accounted for by increases in the wage bill and allowances. In 2006, allowances (mostly *per diems*) were equal to 84 percent of the wage bill (HEG 2007:6). The Health Equity Group comments:

‘Given the increase in salaries, it is surprising that it has not been possible to achieve savings on employment allowances for MOHSW. It is also surprising that provision for vehicles, honoraria and entertainment have all experienced a significant increase. Similarly, in spite of the squeeze on MOHSW’s “Other Costs”, much of the health basket at central level seems to have been allocated for capital items... The locally funded portion of the MOHSW development budget has almost entirely been allocated to the rehabilitation of tertiary hospitals ... A very small amount of these discretionary funds has been used to supplement the (much reduced) recurrent budget for drugs and medical supplies.’¹⁴⁹

While presenting his ministry’s budget for FY2009/10 to parliament, Prime Minister Mizengo Pinda is quoted as saying:

‘I have received [opposition MP] Dr Slaa’s call on Government spending, and agree with him, and other MPs who raised the issue, that we can re-channel financial resources *to other more important areas* like the construction of teachers’ houses.’

He said at least TShs 200 billion (about USD 150 million) could be reallocated in his ministry’s budget, which totals TShs 2.6 trillion (about USD two billion).¹⁵⁰

Finally, numerous expenditure tracking surveys have found that ‘other charges’ disbursed by central government to LGAs are particularly vulnerable to being high-jacked somewhere along the expenditure chain. Corrupt practices have made it virtually impossible for adequate numbers of school books to be made available in schools across the country in an equitable manner, despite many years of donor support targeting this objective.¹⁵¹ It is common for regional and district commissioners to raid the local councils’ car pool and fuel supplies, and for OC monies to be consumed as salary supplements and travel allowances by senior council staff.¹⁵²

¹⁴⁸ The estimate includes on-budget and off-budget spending.

¹⁴⁹ HEG 2007:15. The HEG commentary also suggests that the procurement of ARVs is crowding out spending on other drugs and medical supplies.

¹⁵⁰ Kanyabwyoa 2009. Emphasis added. The PM claimed to have saved about TShs 4 billion (\$3m) from ‘unnecessary’ workshops and seminars and buying luxury cars during FY 2008/09. Agriculture was mentioned as the other sector to benefit from reallocations. The likelihood that additional agricultural spending will benefit many farmers is assessed by Cooksey 2008. See Policy Forum 2010 for an assessment of the Prime Minister’s initiative.

¹⁵¹ Kimaro 2008.

¹⁵² See Cooksey 2005 for a summary of PETS surveys undertaken up to that date and Policy Forum 2011 for a more recent critique.

5.4.4 Public procurement and contracting

Poor quality procurement and contracting seriously undermine state effectiveness. The costs of poorly functioning procurement and contracting systems are enormous from the point of view of state effectiveness.¹⁵³

Textbox 4 summarises Tanzania's largest contracting scandal to date.

Textbox 4: Bank of Tanzania Twin Towers

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 BOT 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. Two senior officials--the **Director of Personnel and Administration**, and the **Twin Towers project manager**--were arraigned for abuse of public office and causing a loss of more than USD 153 million. At the trial of the first accused, a member of the BOT board of directors said he was unhappy with the role of the board in not challenging huge expenditure overruns that the board endorsed *post facto*, and had considered resigning. As in the EPA case (**Textbox 9**), the board failed to protect the public interest in the face of gross irregularities on the part of the Governor and senior management. The first accused was given a three year sentence, the second was acquitted.

Source: Citizen reporter 2006

Procurement accounted for TShs 1.8 trillion of the FY 2007/08 budget, or about a third of total spending.¹⁵⁴ **Table 3** summarises public procurement for the FY 2007/08.

Table 3: Public procurement FY 2007/08, TShs billions

	Works	Goods	Consultancy/ other services	Total
Executive agencies	651	24	35	710
Parastatals	206	314	23	542
Ministries	181	116	11	309
Independent departments	1	132	8	140
LGAs	56	21	4	82
Regions & water authorities	9	8	1	18
Total	1104	615	83	1,801
USD million	849	473	64	1,402

Source: Adapted from Mlinga 2009

Note 1: The six largest procurement areas (89% of the total) are in **bold**.

Note 2: Exchange rate TShs 1,285 per USD.

¹⁵³ These include: (1) increased unit costs, reduced volume and quality of public goods; (2) procurement of non-priority goods and services; (3) over-specification in contracts and goods and services procured; (4) creation of excess capacity; (5) additional unproductive running and maintenance costs; (6) the cost of production of goods and services increases; (7) economic efficiency and competitiveness decline; and (8) the costs of inefficiency and waste are passed on to the public.

¹⁵⁴ Mlinga 2009; Minister of Finance Budget Speech 2009. Total expenditure in FY 2007/08 was TShs 5.3 trillion. At current exchange rates (USD=TShs 1,320) a trillion shillings is the equivalent of USD 758 million, and a billion shillings USD 758,000. The 2009/10 budget is TShs 9.5 trillion, or USD 7.2 billion.

Executive agencies are the biggest procurers of goods and services (39% of total), followed by parastatal organisations (30%) and government ministries (17%). Independent departments, LGAs, regional secretariats and urban water authorities account for the remaining 14 percent. Public works account for three-fifths of all procurement (61%), followed by goods (34%) and consultancy and non-consultancy services (5%). Public works procured by executive agencies, parastatals and ministries account for 58% of all procurement, and good procured by parastatals, independent departments and ministries for a further third (31%).

The Public Procurement Act (PPA) was passed in 2002. The Act abolished the Central Tender Board, decentralised procurement, and established an oversight body, the Public Procurement Regulatory Authority (PPRA). The act requires Procurement Management Units (PMAs) to be set up in each MDA and LGA, staffed by a 'procurement cadre.' According to a bilateral donor, this 'mammoth exercise ... will take years to embed and mature.'¹⁵⁵

Since 2004-05, reporting and compliance rates with the procurement law have been improving but donors still express concern over the limited use of competitive tendering rules and the weak monitoring of procurement methods and awards, and inadequate capacity.¹⁵⁶ According to the CAG:

'Enforcement is not properly instituted and lack of feedback from the regulator to procurement entities may make them consider the reporting requirement as a formality and not a useful exercise.'¹⁵⁷

For years,¹⁵⁸ the CAG and parliamentary committees have complained that their queries concerning dubious accounting are ignored and that accounting officers (Permanent Secretaries in ministries) are not held accountable for the vast amounts of public money that go missing every year.¹⁵⁹

¹⁵⁵ DFID (2007:17). These are technical preconditions: the new procurement cadres also need to be properly supervised and held accountable.

¹⁵⁶ This section summarises part of a written submission by interviewee J.

¹⁵⁷ National Audit Office 2009: 11.

¹⁵⁸ Hedlund and Lundahl (1989:32) cites Nyerere (1982) as complaining to CCM that 'Year after year the reports of the Auditor General and the Tanzania Audit Corporation indicate slackness of the worst kind, but nothing is done.' Fischer and Kappel (2005:13) also cite repeated warnings by the CAG between 1988 and 1995 that parastatals and private companies were paying only a fraction of the counterpart funds due on donor-financed commodity import support programmes. Accumulated debts came to about USD 600 million. They conclude: 'It is hard to understand how such a massive and obvious neglect of payment obligations could escape the attention of donors'.

¹⁵⁹ President Kikwete is quoted as claiming that one third of annual budget allocations are 'diverted to personal use' by senior public officials every year. (Kagashe 2009). The source of the figure is not given. We strongly suspect that the CAG systematically underreports dubious spending in MDAs.

The annual reports of the Controller and Auditor General¹⁶⁰ seem to understate the depth and breadth of the systemic predation that we are at pains to document (**Table 4**).¹⁶¹

Table 4: Summary of CAG's reports on MDAs for FYs 2006/07-2007/08

CAG's opinion	2006/07		2007/08	
	N	Percent	N	Percent
Unqualified	37	76	35	71
Qualified	12	24	11	22
Adverse	0	0	3	7
Total	49	100	49	100

Source: National Audit Office 2009 : xvii

The CAG report on a total of 91 'public authorities and other bodies' for 2006/07 gave 80 (89%) clean audit opinions, and 9 (10%) with qualified opinions.¹⁶² Given the evidence presented in this report, the high level of 'clean' audits reported by the CAG suggests that: (1) audits are rather formal and limited to assessing whether the audited entity has 'followed the rules'; (2) ministries, departments and agencies are successful in covering irregularities with appropriate paper work, and/or (3) that CAG staff are prone to overlook the more egregious examples of official waste and predation.¹⁶³

TANROADS is by far the largest executive agency. In FY2007/08 road works accounted for TShs 800 billion, or 13 percent of the national budget.¹⁶⁴ Tanzania has fewer paved roads per capita than any country in the region except Rwanda and Uganda.¹⁶⁵ However, according to the World Bank: 'The condition of the national roads has improved from 50 percent in poor condition in 2000 to five percent in poor condition in 2009.'¹⁶⁶ The problem is obtaining value for money. The National Audit Office's 2010 Performance Audit on road works examined 10 projects implemented by TANROADS (**Textbox 5**).¹⁶⁷

¹⁶⁰ Published in three volumes, for central government, local government and 'public authorities and other bodies'.

¹⁶¹ National Audit Office 2009 : xvii. Certain MDAs are not audited, including State House and the MoD. Nizar Fazal (2008) describes the annual audit of ministries as 'superficial'.

¹⁶² CAG 2009: xxii. No adverse opinions were issued. The PAOBs consisted of 20 water authorities, 14 regulatory bodies (including crop boards), 12 higher learning institutions, 33 parastatals and 9 government institutions. The BOT was given a clean audit. CAG noted, however, the high cost of legal fees paid to Mkonzo and Company Advocates, who received over TShs 8 billion during 2005/06 and 2006/07 in relation to one (still unresolved) case. Nimrod Mkonzo is an MP for the ruling party.

¹⁶³ Interviewee A told us that the CAG auditor who was permanently based in a key ministry was party to looting of the ministry's budget by the Chief Accountant, under orders from the Minister. Certain 'sensitive' MDAs--State House, Ministry of Defence--are never audited.

¹⁶⁴ In 2009/10 the figure was TShs 1.1 trillion .

¹⁶⁵ World Bank 2010:22. Tanzania has 6,364 people per km of paved road compared to 4,330 in Kenya and 6,950 in Uganda.

¹⁶⁶ World Bank 2010:21.

¹⁶⁷ United Republic of Tanzania 2010. TANROADS' audit results are not published with those of other public authorities. A perusal of the last two TANROADS audits did not yield any major insights into the agency's performance. (Interview with Mr Athanas Pius, Assistant Auditor General, 21 August, 2009).

Textbox 5: Does trunk road construction deliver value for money?

The government budgeted **TShs 1.5 trillion (one billion USD)** for infrastructure during FY 2010/11, 13 % of the national budget, most of which will be used for road works. The NAO's 2010 value for money audit concluded that the management system for road works of the **Ministry of Infrastructure Development/TANROADS** 'does not do well in ensuring the economy, efficiency and effectiveness of road works. This leads to poor quality, delays, cost overruns and above all reduced value for money from the resources provided by tax payers.' The average overrun for the 10 projects reviewed was over 11 months. On average, final costs were **57 percent** over the original budget. Budgeted initially at TShs 28.3 bn, the **Tinde-Shinyanga/ Mwanza** road cost TShs 65.2 bn on completion. By far the most common reason for cost overruns was 'additional designs' and 'additional quantities without redesigning'. 'In some instances, funding constraints occurred because MOID/TANROADS had failed to secure financing before projects started.' The audit found that it was 'quite common' for hired consultants to design a project *and* evaluate the adequacy of the design, or to monitor, supervise *and* undertake the final inspection. Not surprisingly, 'MOID/TANROADS inspections and evaluations were not able to detect certain weaknesses in works which were quite obvious' and 'All ten studied projects were approved at final inspection even though all of them started to undergo repairs soon after the approval, some of which were quite substantial.' The audit found 'that sanctions were rarely invoked for dealing with extended delays, cost overruns and problems in quality of works.'

Source: URT 2010, summarised by UWAZI at Twaweza 2010

The audit concluded that, as a result of poor preparations in planning and design, ineffective quality control and coordination, and lack of transparency: 'MOID/TANROADS is unable to guarantee value for the money given to it.'¹⁶⁸

Non-trunk roads are mostly financed by a dedicated fuel tax, managed by the Roads Fund Board (RFB). During FY 2008/09 the RFB collected TShs 218 billion (USD 166 million) (Karega 2009).¹⁶⁹ Summarising spot checks of local road construction and maintenance by the parliamentary Local Authorities Accounts Committee (LAAC), Slaa identifies sub-standard (or no) construction and 'in most cases' procurement and tender procedures were not followed 'raising serious doubts of corruption.'¹⁷⁰

This is nothing new: during the late 1990s, 'after having passed through the [Treasury, Ministry of Works and regional (MOW) offices] only 10-25 percent of the original amount collected was effectively spent for road maintenance.'¹⁷¹ Spot-checks by CAG auditors of municipal and district council building and other contracts also reveal widespread incomplete work,

¹⁶⁸ Uwazi/Twaweza 2010:7. It would be interesting to estimate the value lost as a result of poor planning, management and supervision. (A 20% loss would be worth USD 200 million for the FY2010/11 infrastructure budget). Below we examine the political economy behind TANROADS poor performance.

¹⁶⁹ In 2007 the tax was increased to USD 0.16/litre of fuel (World Bank 2010:23). Collections increased from USD 44 million in 1999/2000 to USD 208 million in 2008/09.

¹⁷⁰ Slaa 2009. In Dar es Salaam, lack of adequate investment in the road infrastructure compared to the influx of vehicles has led to serious gridlock at peak hours, condemning motorists living in outlying areas to hours of daily commuting (World Bank 2007:32). Despite *ad hoc* upgrading, many roads in central residential areas, Upanga in particular, are still unpaved or have reverted to dirt.

¹⁷¹ Fischer and Kappel (2005:8).

advances paid but little or no work completed, poor quality finishing, and, in the worst cases, full payments made but no goods or services supplied.¹⁷²

5.4.5 Private sector, utilities and infrastructure regulation

Enterprise creation and survival are dependent on effective regulation. As a general rule, the smaller the enterprise, the more vulnerable it is to arbitrary regulation. Petty commodity producers, including small-scale farmers and traders are subjected to both official support and harassment. Although some commercial banks and numerous NGOs provide small loans, most small enterprises are self-financed, and are frustrated in their efforts to grow through *inter alia* lack of affordable credit and tax incentives, and unpredictable regulation, as described above. They are also not organised to defend and promote their collective interests effectively. State efforts to formalise property rights through the MKURABITA programme are underway.¹⁷³ Yet evidence from successfully developing countries suggests that secure property rights and their legal enforcement are not necessarily major constraints to economic development.¹⁷⁴

Economic regulation includes a range of activities that ensure that macro-economic stability is maintained and that investment is encouraged. Regulation has both specific and general effects on economic actors. The specific (or direct) effects--through licenses and permits, labour laws, taxation, and so on--were discussed above. The general (or indirect) effects are felt largely through the performance of the state in public utility pricing and management. Below we examine public utilities and infrastructure regulation.

The non-market nature of public goods provision makes it difficult to impose a cost-based rationale on public goods investments and regulation.¹⁷⁵ Attempted solutions to this problem include the creation of executive agencies and the full or partial privatisation of public services, especially public utilities. Under World Bank and other donor pressure, the GOT contracted the management of a number of key parastatals to private foreign companies. By 2003, five major utilities and infrastructure agencies had some form of private participation, 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).¹⁷⁶ Most of these arrangements failed. The TANESCO and TTCL management contracts were not renewed; the TICTS container handling monopoly with

¹⁷² Slaa 2009.

¹⁷³ The Norwegian-funded business formalisation programme is inspired by the Peruvian economist Hernando De Soto. De Soto's idea of formalising property rights as a means of releasing the potential of 'dead capital' has received much attention, and support from former President Mkapa. See Cooksey 2004:39.

¹⁷⁴ See for example Khan and Gray (2006), Moore and Schmitz (2008). It does not follow, of course, that *therefore* the manner in which (say) lack of property rights in Tanzania impacts on the business environment is not problematic. Another formulation is that informal norms and institutions *may or may not be* reasonable effective substitutes for Weberian formal institutions. Micro-level analysis is required to decide which institutions (formal, informal) are (more or less) effective, of course.

¹⁷⁵ See Nellis (2005) for an overview.

¹⁷⁶ Utz 2008:19.

THA (later TPA--Tanzania Port Authority) was removed; CWS was replaced by DAWASCO; and ATC's JV with SAA collapsed. Disputes involving parent ministries, the parastatals and their external partners have been the rule.

Figure 8 lists the main utilities and infrastructure agencies, their foreign partners and official regulators.¹⁷⁷

Figure 8: Tanzanian infrastructure management and regulation

Sector	Agency	Private partners	Regulator
Trunk roads	TANROADS	-	SUMATRA
Telecommunications	TTCL	MSI/Detecon 2001- SaskTel 2007-2009	TCRA
Railways	TRC, TAZARA	RITES 2007-09 China 2009-	SUMATRA
DSM Port	TPA	TICTS 1998- to date	SUMATRA
Electricity	TANESCO	NetGroup Solutions 2002-2006	EWURA
Domestic water DSM	DAWASA	CWS 2003-05 DAWASCO 2005-	EWURA
Airlines	ATCL	South African Airlines 2001-06 Sonangol 2008-	CARA

5.4.5.1 Electricity

TANESCO both owns generators and buys power from independent power producers. 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 (**Textbox 7** below).

In May 2002 TANESCO's power distribution, customer billing and revenue collection functions were contracted to NetGroup Solutions of South Africa for a two year period--later extended to four years--in preparation for the 'unbundling' of the company.¹⁷⁸ Between May 2002 and May 2004 NetGroup increased revenue collection from USD 11 million to over 22 million per month.¹⁷⁹ There were confrontations between the new management and workers' union, however, and criticism of NetGroup's performance grew over time.¹⁸⁰ In December 2006, TANESCO refused to renew NetGroup's contract on the grounds that the expatriate management team was too expensive and had failed to turn TANESCO around.

TANESCO has only managed to survive financially through treasury subsidies totalling nearly TShs 200 billion between 2002 and 2006, and has

¹⁷⁷ In 2001 EWURA and SUMATRA were established to regulate energy and water utilities and surface and marine transport respectively. The Civil Aviation Regulatory Authority and the Communications Regulatory Authority date from 2003 (Mkocha, Godfrey 2008. 'Prof Shivji both right and wrong on competition', *Citizen*, Dar es Salaam, 12 January).

¹⁷⁸ Machumu 2003. The unbundling of power production, distribution and supply into separate companies has yet to happen. There is also no trend towards privatising any or all of these functions.

¹⁷⁹ Gratwick, Ghanadan and Eberhard 2006:41. These gains were achieved mainly through enforcing collections and arrears payment, largely from public institutions and the island of Zanzibar.

¹⁸⁰ 'From the very beginning, Tanesco workers threatened to sabotage the plant if the government did not guarantee generous retrenchment packages' (Correspondent 2006).

refused to raise tariffs¹⁸¹ as recommended by the IFIs.¹⁸² In 2009 TANESCO lost TShs 48 billion (USD 36 million), following losses of TShs 162 billion and TShs 67 billion in 2006 and 2007 respectively.¹⁸³ A significant proportion of these subsidies consisted of capacity charges paid to Independent Power Tanzania Ltd (IPTL).

5.4.5.2 Domestic water supply

Less than ten percent of Dar es Salaam's four million residents obtain water directly from the water and sanitation utility DAWASA. For 25 years, Dar es Salaam's water supply suffered from underinvestment, leading to deteriorating infrastructure and utility-customer relations, massive unofficial expansion of the network, and free-riding among customers. Corruption in billing and payments undermined the financial position of DAWASA. In August 2003, DAWASA signed a management contract with City Water Services Ltd (CWS), a joint venture between British, German and Tanzanian companies. The contract was accompanied by USD 144 million in soft loans to repair and expand the water distribution system.¹⁸⁴

In May 2005 the government terminated the lease for poor performance and replaced CWS with another publicly owned company, DAWASCO.¹⁸⁵ Other major sources of finance have come on stream to support the rehabilitation and expansion exercise, but the governance constraints detailed above have not been successfully addressed. Challenging entrenched malpractices in DAWASA would have required a free hand to hire, fire and discipline staff, and concerted efforts to build functional relations with water consumers, and could not have been achieved without the consistent support of the state, in enforcing the law. None of these conditions was met. CWS were also incompetent, and lost two arbitration cases challenging the legality of their ouster.¹⁸⁶

Textbox 6: Watering another white elephant?

While borrowing money to rehabilitate Dar es Salaam's run down water supply, the GOT launched a much more expensive project (over USD 200 million to date) to bring water from **Lake Victoria to Shinyanga, Kahama** and over **50 villages** to serve an estimated

¹⁸¹ The July 2009 price of electricity for domestic consumers was about 12 US cents per kWh. (A kWh [kilowatt hour] runs 10x100 watt light bulbs for one hour). In Kenya the July 2009 price was 17 US cents. By mid-2010, the Tanzanian USD price was about 12.7 US cents / kWh at an exchange rate of TShs 1,500 / USD.

¹⁸² World Bank 2007a:35. 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).

¹⁸³ Mtulya 2010. TANESCO is said to have recorded a profit of TShs 2 billion in 2008, which seems improbable given the above figures.

¹⁸⁴ Cooksey and De Waal 2007. An abridged version of this report was published by WaterAid Tanzania in 2008.

¹⁸⁵ Three CWS managers were declared Prohibited Immigrants (PI) and immediately repatriated.

¹⁸⁶ CWS contested the termination at the United Nations Commission on International Trade Law (UNCITL) and subsequently the International Centre for Settlement of Investment Disputes (ICSID), losing both times (Mkuchika 2009).

one million people. Delays and cost overruns led the Treasury to challenge the 250 km pipeline, which was opened by **President Kikwete** in May 2009. “Total cost is \$225 million. The project had five contractors from China and Saudi Arabia selected on a sole-source basis: (1) China Civil Engineering Company (\$27 million); (2) Sinohydro Company – laying pipes from Mabale intake to Solwa and Shinyanga; (3) and (4) laying pipes from Shinyanga to Kahama at \$63 million plus \$2.6 million for project supervision; (5) National Corporation Power Supply (Saudi Arabia) for the supply of power for \$6.3 million. The project has been praised by both government and donors because it reflects Tanzania’s own priorities and is financed by the GOT’s ‘own funds’. In his 2009/10 budget speech, **Minister of Water Professor Mark Mwandosya** claimed that “the Lake Victoria-Shinyanga pipeline is the biggest water project that the government has ever undertaken in our country’s history. It is the biggest water project ever undertaken in sub-Saharan Africa. It has been financed entirely with local money without any foreign assistance. This is no mean achievement, and shows what we can achieve if we have the courage.” (Fungibility belies this argument). The per capita cost of providing water to a (probably quite) small additional population in Shinyanga as a result of this project¹⁸⁷ make it arguably the biggest white elephant in the Tanzanian water sector to date.¹⁸⁸ Yet the project is not designed to buy favour among the local populations by providing useful services. Users have to pay for connections and water supply on a metered basis. So far, only a few thousand households have (perhaps) been connected to the new system, and there is no agency yet in place to manage and maintain the pipeline and water supplies. One wonders how poor villagers can be expected to buy water at anything approaching cost-recovery rates, assuming the system ever becomes fully operational. Meanwhile, a follow-up project is planned to bring Lake Victoria water to Tabora, benefiting 400,000 people at an initial cost of USD 80 m.

Source: Therkildsen 1988; Mathew and Mande 2006; URT 2009

The equity dimension of inefficient electricity and water supplies are worth flagging, for the hundreds of billions of shillings in subsidies enjoyed by Dar es Salaam’s wealthy minority and paid for out of the national budget, including donor support, could serve more widely beneficial developmental purposes. In the following example of infrastructure, even the wealthy minority are among the losers.

5.4.5.3 TANROADS

The inefficiencies responsible for the poor performance of TANROADS include overlapping and unclear legal mandates with the Ministry of Works and LGAs and irregularities in the appointment of senior staff.¹⁸⁹ In 2007, Ephraim Mrema was appointed head of TANROADS under ‘hugely controversial circumstances.’ According to one press report:

¹⁸⁷ The DSM water project cost \$164 million for a population of (say) 4 million, or \$41 per citizen. The Lake Victoria project is designed to serve a notional 1 million citizens at a cost of (say) \$250 m, or \$250 per capita. The per capita investment cost could be much higher than this.

¹⁸⁸ Therkildsen’s *Watering White Elephants?* (1988) documents failures in planning and implementing rural water supply projects in Tanzania during the 1970s and 80s. Government and donor institutional capacities were the main constraints, not rent-seeking/corruption.

¹⁸⁹ TANROADS was initially run by a Ghanaian expatriate. The most qualified person for the job was passed over in favour of Ephraim Mrema, a political appointee, who retained the ‘expatriate’ salary of more than USD 0.25 million per annum in salary and allowances (Luhwago 2008) (NE=USD 12m). (Interview 01/10).

'A government enquiry has already established that Mrema was appointed ... contrary to official procedure and lacks the necessary qualifications for the key post.'¹⁹⁰

A number of recent tendering scams have been 'directly linked to the CEO'.¹⁹¹

During the 2009-10 budget session TANROADS was criticised for entering into numerous multi-million USD contracts which were subsequently terminated for poor quality or slow performance, suggesting that the tendering process was ineffective and/or that post-tender extortions undermined performance.¹⁹² According to one interviewee, TANROADS has signed numerous road construction contracts for which finance cannot be assured.¹⁹³

In 2009, TANROADS was in the news in connection with an apparently rigged tender for outdoor advertising along the trunk roads under TANROADS control (see **Appendix 3**).

5.4.5.4 Tanzania Ports Authority/Tanzania International Container Terminal Services (TPA/TICTS)

The strategic importance of an efficient container handling facility for the Tanzanian economy and land-locked neighbours has not been reflected in investment decisions by national policymakers. During the 1990s, Dar es Salaam port benefited from a large Finnish aid project contracted to VALMET. Between 1988 and 1994, the number of 20 ft containers moved annually rose from 12,000 to 93,000, reaching over 320,000 in recent years.¹⁹⁴ TICTS, a consortium between the Hong Kong-based Hutchinson Port Holdings Group and local investors, hit the headlines in 2008 when it was revealed that the one-time Minister of Energy and Minerals Nazir Karamagi was allegedly its chairman and 30 percent shareholder.¹⁹⁵

Unlike most of the other public-private arrangements reviewed in this section, TICTS has been a success. After 2000, TICTS continued to increase the efficiency of container handling at the port, but has been criticised in recent years for worsening performance in the face of a rapid increase in

¹⁹⁰ Thisday reporter 2010. Ephraim Mrema is the younger brother of Felix Mrema, a ruling party MP and Director of Public Prosecutions (DPP) under Change. (See our horticulture paper [APPP 2011] for additional references to Mrema). Since the forced resignations of Change and Prime Minister Edward Lowassa, Mrema is believed to have allied himself more closely with President Kikwete. The President's eldest son is said to be a frequent visitor to Mrema's office.

¹⁹¹ Thisday reporter 2010. Mrema is said to have ignored 'official instructions from the ministry not to appoint directors and regional managers at TANROADS without prior approval.' Mrema 'claimed that he was personally authorised by President Kikwete to appoint new directors and regional managers.' State House later refuted the claims 'and sought to distance President Kikwete from the ... saga.' The President's eldest son is said to be a frequent visitor to Mrema's office (Interview K, 03/09/2010).

¹⁹² At the end of 2009, TANROADS was said to be involved in legal suits with nine contractors worth TShs 468 billion (USD 360 m) (Citizen reporter 2009).

¹⁹³ Interviewee Z, 02/09/10. '...there are about 25 ongoing...road projects, that require at least Sh500 billion this financial year while in the 2010/11 budget there is only about Sh100 billion provision' (Liganga 2010).

¹⁹⁴ Interviewee.

¹⁹⁵ Karamagi resigned over the Richmond scandal in February 2008.

freight movements. TICTS blames the growing difficulty of handling container movements on the lack of container stacking space and inefficient documentation by importers and exporters.¹⁹⁶ From 2004, TICTS urged the government to invest heavily in the expansion of port facilities, but this did not happen. 'Although it was apparent by 2005 that the terminal was nearing capacity, nothing was done to avoid the congestion.'¹⁹⁷ Transshipments to neighbouring countries (30 percent of all container arrivals) fell from 433 tons in 2007 to 213,000 tons in 2009.¹⁹⁸

In March 2008, Danish shipping company Maersk Line announced it was suspending its Tanzanian calls 'due to the increasing pileup of containers.' TICTS' contract was irregularly extended from 10 to 25 years during President Mkapa's last year in power (2005).¹⁹⁹ Under strong political pressure to end the TICTS contract, the government instead announced an end to TICTS container handling monopoly, arguing that competition will increase efficiency and reduce costs.²⁰⁰ That TICTS' contract extension was successfully defended against strong parliamentary opposition suggests behind-the-scenes lobbying by interested parties. However, the company has performed well by Tanzanian PPP standards and the current crisis in container clearing cannot be resolved by 'increasing competition.' After visiting the port in October 2009, Pascal Lamy, Director of the WTO, suggested politely that reducing the 20 days required to clear a container ("the equivalent of a 15% tariff ... for the importer or exporter") "could be done fairly quickly ..., provided there is the necessary political direction."²⁰¹

¹⁹⁶ Container handling efficiency and profitability are also influenced by TRA, clearing and forwarding agents, the Tanzania Bureau of Standards, importers, container inspectors (TISCAN), and the dock workers and their union.

¹⁹⁷ World Bank 2008:5. An alternative view is that the first priority is reducing waiting time, for example, by penalising clearing agents who do not have their documentation ready when their containers are unloaded (Interviewee Z, 02/09/10).

¹⁹⁸ World Bank 2010:25.

¹⁹⁹ Karamagi claimed that the deal had the blessing of Mkapa's cabinet. A report by Controller and Auditor General Ludovick Utuoh found that 'the whole process constituted a gross violation of the Public Procurement Act of 2004, and of the lease agreement itself' (Edwin 2009).

²⁰⁰ Edwin 2009. The GOT has yet to endorse the need for huge additional investments in the Dar es Salaam port. However, there are plans afoot to build a newports in Mwambani, near Tanga, as part of a Port Master Plan. The planned port is inside the Tanga Coelacanth Marine Park. There is speculation that the port is part of an integrated plan to link Rwanda and Uganda to the Tanzanian coast, as an alternative to the Uganda-Kenya link to Mombasa, including a proposed road across part of the Serengeti that triggered international protest from environmentalists. Plans to mine Lake Natron soda ash at the potential expense of the lesser flamingos that breed there have been similarly condemned. The huge costs involved will probably prevent these planned developments from going ahead, unless the GoT can obtain a cheap loan. The planning and 'preliminary works' for such ventures generate significant rents to officials and consultants, of course.

²⁰¹ Mapalala 2009. Lamy also decried delays at border crossings and the number of road blocks and bribes (non-tariff barriers) that international truckers have to contend with.

5.4.5.5 TTCL

Tanzanian Telecommunications Company Limited (TTCL) provides both landline and cell-phone services. The performance of TTCL improved considerably after February 2001, when a Dutch-German consortium, MSI/Detecon, took a 35 percent stake in the company. Then Celtel entered the market in a joint venture with the GOT.²⁰² In 2009, Celtel became Zain, and in April 2010 the GOT requested Zain to sell its TTCL stake back to TTCL so that the company would be wholly owned by the state once more. Telecommunications sector liberalisation had a significant impact on services and prices, and the sector's revenue grew from USD 143 million in 1998 to USD 389 million in 2003. However, Tanzanian teledensity remains relatively low, reflecting, according to the World Bank, an inadequate regulatory framework, inadequate interconnection agreements/directives, high fees and royalties levied by the regulator (TCRA), and the non-transparency of regulatory oversight.²⁰³

5.4.5.6 Tanzania Railways Corporation/RITES

For many years, Tanzania-Zambia Railway (TAZARA) and the Tanzania Railways Corporation (TRC) have provided diminishing freight and passenger services and posted heavy financial losses.²⁰⁴ Attempted solutions through a proposed concession (2001) found no qualified bidders. In 2007, TRC (renamed Tanzania Railway Ltd) (TRL) entered into a 25-year lease agreement with Indian company RITES (Rail India Technical and Economic Services) to run the country's 2,700 km central line network. World Bank/IFC loans facilitated the deal. Reducing TRL's workforce from 7,000 to 4,000 sparked protracted labour disputes, with the government footing the bill for the retrenchment exercise. TRL carried only 450,000 tonnes of freight in 2008, compared to 600,000 tonnes transported by TRC in 2006. Instances of locomotive failure nearly doubled. RITES claimed the condition of the rail infrastructure was worse than stated in the due diligence conducted in 2005.²⁰⁵ In 2008, the Reli Asset Holding Company (RAHCO) recommended the termination of the RITES' concession, while RITES held out for a renegotiation, including a five-year waiver on payment of concession fees worth USD 58 million. By September 2008, only two trains per week were plying the central line from Dar es Salaam.

²⁰² The remaining shares were allocated to local financial institutions (14 percent), international financial institutions (10 percent), and TTCL employees (5 percent) and the government retained a 36 percent stake. When Celtel became Zain in 2009, the government retained its shares. In August 2010, Zain's African operations were bought by Indian company Bharti Airtel for USD 10.7 billion, but the GOT refused to sell its Celtel/Zain shares. Instead, '... in addition to wanting to reacquire Zain's stake in Zain Tanzania, the Tanzanian [government] want[s] to make TTCL a 100 per cent government-owned firm, hoping the company would be able to compete with private operators in the local market' (Times of Zambia, 2010).

²⁰³ Utz 2006:27, 35.

²⁰⁴ Prior to the concession, losses were around USD 6m per annum (Thisday reporter 2008). Figures in the following text are from this source.

²⁰⁵ RITES claimed RAHCO misled them by claiming that 92 locomotives were in working order when in fact there were only 55 (Mande 2009). This resulted in the cancellation of a USD 20m IFC loan to purchase new locomotives.

A similar story of poor management, budgetary bail-outs and stalled PPP could be told about the 1,860 km Tanzania Zambia Railways Authority's (TAZARA) Tanzam railway, built by the Chinese in the 1970s. A USD 10.8 million loan from the Chinese government in 2009 was a precursor to selecting a Chinese company to lease the railway. As with many of our case studies, the actual decision-making process leading to a workable agreement is long and tortuous, and non-transparent. In August 2008 Tazara's Zambian managing director and other senior officials were suspended pending investigations of alleged embezzlement of over TShs 10 billion.²⁰⁶

Total freight transported by rail fell from just over two million tons in 2003 to 0.7 million in 2009.²⁰⁷ Because of the poor state of the railway network, heavy goods that should be transported by rail are trucked by road. The likelihood that this will change anytime soon is remote, given the cost and difficulty of turning the railways around and the close relations between the hauliers and government officials.²⁰⁸ A final factor is the common non-profitability of railways that obliges governments to subsidise them the world over.

5.4.5.7 Air Tanzania Company Limited (ATCL)

Many state- and privately-owned airlines were severely hit by the financial crisis and the quadrupling of oil prices in 2008. Tanzania's 'national flag carrier' ATCL was no exception, but the company had been making heavy losses for many years prior to the crisis.²⁰⁹ A 51-49% partnership with South African Airways (SAA) collapsed in 2006, after SAA had invested USD 20 in the company. In 2008, Chinese company Sonangol International Holdings Ltd injected USD 21 million in ATCL, in exchange, it is said, for oil exploration rights. Established in 2004, Hong Kong based Sonangol's investment was financed by the Chinese Development Bank. The secretive deal took place outside the normal administrative channels. Leasing an Airbus A320 in 2007 turned out to be a costly mistake, with no trained Tanzanian pilots to fly it, low capacity utilisation, and hefty maintenance bills to pay. By mid-2010, ATCL had failed to find another foreign partner, although Sonangol was still negotiating terms for a JV.²¹⁰

²⁰⁶ Kagashe 2008.

²⁰⁷ World Bank 2010:25.

²⁰⁸ Senior officials are also truck owners (interviewee Z, 02/09/10).

²⁰⁹ Losses amounting to TShs 24.7 billion were posted during 2003-07 (Susuma 2008). ATC lost \$7.3m in 2003 and \$7.7m in 2004 (Edwin 2006).

²¹⁰ Conditions included obtaining a GOT guarantee for a loan (ATCL staff member, personal communication, 14/08/10).

5.5 Conclusions

Poor regulation is one of the main factors undermining the capacity of Tanzania's utilities and infrastructure parastatals and agencies to provide satisfactory services at reasonable cost. The examples cited above suggest that solutions to the problems of running public utilities efficiently must include addressing underlying governance issues, including regulation. PPPs have generally failed. Widespread mistrust of foreign management or equity participation in running utilities and other state services is compounded by frequent sabotage, as sources of illicit rents enjoyed by previous staff and their political overseers are challenged by new management teams. Trades Unions defend the interests of their members in an aggressive manner not permitted when companies are under local management, while adding to the criticisms (both fair and unfair) levelled against foreign managers.

Other common themes running through attempts at utility and infrastructure 'privatisation' are: (1) they are facilitated through procedures financed and (partly) staffed through multilateral and bilateral development aid;²¹¹ (2) World Bank and other loans help 'incentivise' foreign participation; (3) though they may successfully increase revenues and improve efficiency during the short-term, they generally collapse before achieving significant impact through new investments and improved efficiency and profitability.²¹² A key feature (4) is that the president appoints the CEO of parastatals and EAs. Though we cannot generalise, there is clear evidence that key appointments are driven by patronage considerations rather than proven competence.²¹³

From the above discussion, it would seem that Tanzania is likely to have to continue with an underperforming parastatal sector to run its utilities and infrastructure for the foreseeable future. Given the widespread failure of all types of PPP to date, potential foreign partners will not be forthcoming in future, and GOT is unlikely to push the issue in the absence of foreign aid 'sweeteners'. Though arguably less than the cost of subsidising parastatal and cooperatives under earlier regimes, the costs incurred in bailing out loss-making parastatals and executive agencies contribute significantly to the country's poor performance in public goods creation and maintenance. For example, the GOT spent TShs 47 billion (USD 36 million) to 'rescue six ailing

²¹¹ We discussed the role of the Parastatal Sector Reform Commission above.

²¹² Specific privatisations have long been among the WB's and IMF's key conditions for aid disbursements. It is clear that the active resistance of workers and managers has successfully undermined the IFIs' privatisation project in key sectors, at the cost of increasing external debt by hundreds of millions of USDs. Though the ouster of foreign investors and managers has been politically popular, the issue of turning these companies around remains unresolved.

²¹³ A very partial analysis suggests that it may be functional as regards promotion prospects within 'the system' of state patronage to have been dismissed from a previous job for corruption. The wrong key appointments--judged by appropriateness of background and length of relevant experience--can be ruinous. TANROADS is the best (or worst) example. Another involves an official dismissed for corruption relating to a World Bank project that he was managing, who is now Permanent Secretary in the same ministry. We do not suggest that this accounts for all cases of patronage-driven appointments, or that no competence-based appointments are made.

parastatal organisations during the 2008/09 financial year', including TShs 21 billion (USD 16 million) for the Tanzania Investment Bank (TIB) and TShs 11.5 billion (USD 7 million) for ATCL. Corruption and mismanagement make TANESCO a financial albatross for Tanzanian and donor taxpayers.

Despite donor pressures, a number of sectors that could benefit from privatisation and competition remain in state hands, including insurance (National Insurance Corporation), housing (National Housing Corporation) and ranching (NARCO).²¹⁴

There are many other aspects of sectoral regulation that could be explored. We have not been able to assess the performance of the official regulators of the sectors and companies discussed above, in part because most of them have only been operating for a short time. There is some anecdotal evidence that regulatory functions may be vulnerable to the imperatives of patronage documented throughout this report, but a deeper analysis would be required to make any firmer, more general, claims.

We conclude from this discussion that the budgets formally committed to public goods creation in Tanzania are: (1) significantly less than they could be, and (2) deployed so inefficiently as to belie the apparent improvements in public investment that the statistical record suggests.²¹⁵

The systemic misuse of public finance through waste, inefficiency, predation and rent-seeking seriously compromises the public goods creation function of the Tanzanian state, which in turn undermines investment and growth. Economic regulation has been quite successful at the macro but not at the micro level, and the management and regulation of public utilities have been extremely weak. 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.

The negative conclusions on Tanzania's contemporary public finance management performance summarised above are supported by the 2009 PEFAR, which flags:

'...weak internal controls (for payroll and non salary expenditure); poor asset management; an inadequate internal audit function; ... lack of transparency in procurement processes; an inadequate introduction of the Epicor [PFM computer package] system; and poor budget credibility. These issues are causing a depletion of government resources and heightening their vulnerability to fraud and corruption. Weak corporate governance in public bodies only reinforces this

²¹⁴ The sale of houses, land and other property belonging to parastatals is thought to have been highly rent-laden. We summarise the below-cost sale of state housing in Dar es Salaam elsewhere in this report. NHC has been a byword for corrupt practices for many years.

²¹⁵ Domestic savings rose from -5 percent of GDP in 1993 to almost 15 percent in 2005. Public sector consumption decreased from 18 to 7 percent of GDP between 1990 and 2005. Utz points out that the 15 percent savings figure is less than the sub-Saharan African average of 18 percent (Utz 2008 :27-8). The Commission for Growth and Development (May 2008) argued that 'growth requires high rates of investment, perhaps as much as 25 percent of GDP or more' (Thalman 2008).

concern, as do the findings from the VfM [value for money] audits, which also reveal shortcomings in the flow of funds in the area of service delivery.²¹⁶

Collectively, these shortcomings all seem to originate in efforts by those in control of clientelistic state institutions to retain *or increase* opacity in public finance management so as to facilitate predation and rent-seeking in collaboration with non-state actors.

We may use the term *social waste*²¹⁷ to describe the net direct and indirect losses to public and private value creation resulting from rent-seeking of the types described above.

We now attempt to explain these patterns of rent-seeking by examining the nature of *rentierism* in the Tanzanian state.²¹⁸

²¹⁶ PEFAR 2010:74.

²¹⁷ Sen (1999:125) follows Adam Smith's use of this term to describe market constraining, rash and speculative investments by 'prodigals' with 'the passion for present enjoyment'. 'Injudicious and unsuccessful' investment projects serve 'to diminish the funds destined for the maintenance of productive labour.'

²¹⁸ Kelsall and Cormack 2010, Introduction.

6.0 Rent-seeking, coordination and centralisation

How independent is the state bureaucracy in carrying out its macro- and micro-economic management functions? (**Section 6.1**). Are pressures from the political centre that influence the creation of public goods coordinated and/or centralised? (**Section 6.2**). These are complex issues about which little has been written to date and which are intrinsically difficult to research.

In our analytical framework (**Figure 1**) we suggested broad relationships between the main types of rent-seeking and the state's public goods provision function. In **Figure 9** we attempt to classify the main types of rent-seeking influencing the core state functions.

Figure 9: Typology of rent-seeking and main state functions

State functions	Revenue collection	Public spending	Public procurement	Economic regulation
Rent-seeking				
Extortion				
Theft of private resources by public officials	Shaking down businesses; corrupt tax collectors; rent 'scraping'.			Agricultural regulation and taxation.
Predation				
Theft and waste of public resources by public officials	Agricultural & urban land grabbing; tax exemptions & evasion; hunting, fishing licensing; illegal logging; mineral licences, mining contracts; privatisation; sale of state houses; <i>Alex Stewart; Kiwira; Meremeta.</i>	Allowances, expenses; luxury & unnecessary public spending; studies, consultancies; guaranteed loans to state corporations & cooperatives; <i>Lake Victoria-Shinyanga water project.</i>	Procurement; infrastructure contracting; construction; <i>Twin Towers; BAE radar; military procurement.</i>	Agricultural & urban land grabbing and underpricing; hunting & fishing licensing; illegal logging; <i>Meremeta/Tangold; EPA; pension fund looting.</i>
Rent-seeking				
The capture of regulatory power by private interests to gain access to rents	Tax exemptions; hunting, fishing licensing; illegal logging; privatisation.		Procurement; infrastructure contracting; construction; mining contracts; petty corruption (rent scraping); <i>IPTL; Richmond; BAe radar; military vehicles, helicopters; EPA.</i>	Import taxes & exemptions; licensing; smuggling (gold, ivory, timber); <i>IPTL; Richmond; EPA.</i>

Patronage spending				
Diverting public spending to private goods & transfers: subsidies, white elephants		MPs' salaries, vehicles and allowances; wasteful public spending, civil service seminars and allowances; state housing sales; military projects.	<i>BOT Twin Towers; Mafuta House</i>	<i>BOT Twin Towers; Mafuta House; DSM & Lake Victoria water projects.</i>

Source: Adapted from Williams et al. 2009.

State predation and rent-seeking by (both local and external) private actors account for the best-known examples of 'grand corruption' in procurement and construction contracts. Some of these will be used to further illustrate how systemic rent-seeking mediates (and undermines) the production of public goods. We have argued that the Tanzanian state has been quite successful in re-establishing macro-economic stability during the last fifteen years or so, which suggests that some of the more egregious types of political interference have been brought under control. On the other hand, better revenue collection and more aid may permit a heightened incidence of state predation and rent-seeking around state budgets with less chance of this translating into macro-instability.

6.1 The independence of the state bureaucracy

In response to the question 'How far is the bureaucracy protected from political interference?' one respondent claimed that:

[Since President Kikwete came to power] 'the bureaucracy has been increasingly politicised. The average PS [Permanent Secretary] does not take any initiatives: he waits for orders from above. [President] Mkapa took government more seriously. On one occasion he told a group of Regional Commissioners: "I can get rid of you, but not them" [pointing at a group of PSs and other senior civil servants]. The main difference between Mkapa and Kikwete and Lowassa is that the latter only know politics whereas Mkapa was a civil servant for many years.'

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In our historical overview we identified a number of phases in the relationship between the political centre and the state bureaucratic apparatus.²²⁰ In the first post-independence phase (1960s-1980s) the political and bureaucratic spheres were formally subsumed under the one-party state. During the ujamaa period, the state created and allocated rents in order to develop basic industries. Subsequent externally-driven economic liberalisation was intended to replace the ujamaa model with a lighter state role designed to create a 'level-playing field' that would encourage local and external investment. As we have seen, privatisation has taken much of the direct

²¹⁹ Interview A, 8 March 2009

²²⁰ Kelsall 2009.

control of the economy out of state hands, though the management of state-owned utilities and commercial entities remains highly problematic from an IBE perspective.

Though the state no longer has the main role in direct economic management, its performance in macro- and micro-economic regulation still has profound consequences for the IBE. When rent-seeking consists of practices designed exclusively to divert public resources to private ends the outcomes are very likely to be negative for the overall IBE, as documented at length above. We are also concerned, however, to identify cases where political intervention allocates rents in a potentially productive manner, irrespective of issues of legality or corruption. At the micro level, this could simply amount to favouring specific companies with a view to developing a national capitalist class capable of spearheading economic growth and development. More ambitious political intervention would be concerned to implement an industrial strategy, channelling resources and opportunities to priority manufacturing or service sectors. Other forms of rent-seeking may undermine such a role.

We may approach the independence of the bureaucracy issue with a review of power policy and implementation.²²¹ **Textbox 7** provides a summary. At issue is the division of labour between the executive and the state bureaucracy regarding policy and regulatory functions.

Textbox 7: Power, policy and politics

After independence, energy supply became increasingly dependent on hydropower. In the early 1990s, this dependence led the **Ministry of Energy and Minerals (MEM)** to develop a long-term energy policy designed to diversify power sources to reduce the risk of power crises in times of drought. The front-runner for a 'least-cost' alternative was **natural gas**, large quantities of which had been discovered in southern Tanzania. The main alternative power source considered at the time—diesel generators—had a high foreign exchange cost in imported fuel. Thus the **Canadian** consultants advising the MOEM advised the natural gas option. **Songas**, also a Canadian company, had proposed a gas pipeline from the **SongoSongo** gas field to Dar es Salaam, where the gas would run two existing (converted) and two new (Songas-owned) turbines. The MOEM signed a MoU with Songas and Ministry officials proceeded to lobby for support for the project from other ministries (lands, environment...) that would be involved in implementation. Support was not forthcoming, perhaps because the senior officials contacted sensed a deal (why else would MEM officials promote the project proactively?) and were holding out for their cut. The MEM is said to have tried to solicit a bribe from the Songas manager, who refused, leading to 'problems' with the **Immigration Division**. The Songas project was put on hold when the MEM entered into a build, own and operate 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 Songas project, as well as from the MEM consultants and elsewhere. The opponents argued that IPTL used the wrong technology, constituted excess capacity, and at **\$160 million**, was highly overpriced. Despite this opposition, IPTL obtained government agreements, tax exemptions and other requirements in record time. The delay in commissioning Songas was responsible for the **1997 power crisis**, precipitated by drought. (IPTL was initially 'fast-tracked' as an emergency power project to avoid the same crisis). Commissioning IPTL was delayed when the power utility **TANESCO** took IPTL's parent company to international

²²¹ This review draws on interviews with senior civil servants with direct experience of the sector and the events described. We remind the reader that political 'interference' is not necessarily a problem *per se*, what matters is the *nature and consequences* of the intervention.

arbitration for overpricing the project in order to increase the standing ('capacity') charge that TANESCO contracted to pay whether power was generated or not. Both IPTL and Songas agreements 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 bail-outs from the government, and an 'emergency' power project loan from the World Bank.
Source: Cooksey 2002, interview A

The above example shows that the technical role of the MOEM was effectively undermined by senior politicians and bureaucrats.^{222 223} A second cause was the inability of the bureaucracy to coordinate decision-making in order to expedite the process of commissioning new power generating capacity.

The IPTL case could have served as a warning to the GOT 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. One positive consequence of Dowans was the exposure and sacking of the main perpetrators.²²⁴ In both IPTL and Richmond-Dowans, TANESCO's senior management was either overruled by the politicians or bought off by the deal-makers.

Despite similarities, the two power projects were quite different in nature. IPTL originated in a visit to Malaysia by Horace Kolimba, the CCM Secretary General and Minister of Planning, in June 1994. Mahathir Mohamed, the Malaysian Prime Minister actively promoted Malaysian companies in Africa, and is said to have provided covert support to finance CCM in the build up to the presidential and parliamentary elections of 1995.²²⁵

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

²²² Documented payments were made to a range of senior politicians and bureaucrats through a Tanzanian middle-man ('rent-broker'), a former employee of the BOT. See Cooksey 2002.

²²³ IPTL also demonstrates an important link between the off-budget versus on-budget rent-seeking issue discussed above. To avoid bankruptcy, TANESCO has been bailed out by the treasury both directly and indirectly (through a WB loan). Thus a privately financed deal led to publicly financed bailouts. There are other examples of this phenomenon, including the practice of providing state guarantees to public corporations, cooperatives and other bodies that borrow from private banks. The BOT gave Export Credit Guarantees worth Shs 291 billion from 2003 to 2009 to 45 beneficiaries. The MOFEA is reported to be reluctant to make the list of beneficiaries public (Daily News reporter July 2009).

²²⁴ Although no prosecutions have resulted to date.

²²⁵ See Cooksey 1998 and 2004.

Treasurer and Prime Minister.²²⁶ The failure of Richmond to deliver power on time to avoid yet another power crisis contributed to the rupture of the strategic alliance between Lowassa and Kikwete that brought the latter to power. A Commission of Enquiry into the scam led by CCM legislator Harrison Mwakyembe criticised Lowassa for using his position to steamroller 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 Tanzanian history.²²⁷

IPTL and SONGAS were negotiated, commissioned and operated in the absence of an independent and effective regulatory body. It remains to be seen whether such a body can reign in the predation and rent-seeking practices that have bankrupted TANESCO,²²⁸ reduced the profitability of many Tanzanian companies, discouraged investment, and brought repeated chaos to hospitals, hairdressers and households alike.

Finally, an interviewee with first-hand experience of the power sector described an unproductive rivalry between the National Development Corporation (NDC) and the Ministry of Energy and Minerals over investments in the power sector.²²⁹ NDC was set up in 1965 as the country's investment finance company, with interests in agriculture, manufacturing, tourism, and trade. In 1969, NDC was split up and retained responsibility for mining and industrial investments, losing minerals to a new parastatal (STAMICO) in 1973. After liberalisation, 'the parastatal sector became increasingly vulnerable to the interests of individual ministers, namely, those whose ministries controlled the parastatals.'²³⁰

Daniel Yona, President Mkapa's Minister of Energy and Minerals, 'interfered in privatisation/investment in the minerals sector, and effectively marginalised [the role of] NDC.' NDC had lined up the German conglomerate Siemens for a major investment in a coal-fired power plant at the state-owned Mchuchuma coal field in Ruvuma Region.²³¹ Finally, NDC has announced

²²⁶ Richmond was dubbed 'Richmonduli' after Lowassa's constituency Monduli in Arusha Region.

²²⁷ Nazir Karamagi was the Minister, Ibrahim Msabaha was his predecessor. The latter was Minister of East African Cooperation when he resigned. See Thisday reporter 2008.

²²⁸ Tanesco borrowed TShs 300 billion from local banks in 2007 'to revamp its operations.' On July 29, 2009 it was revealed that the residence of the Managing Director of Tanesco, Dr Idris Rashid, had been refurbished at a cost of TShs 0.6 billion, ten times the price (TShs 60 million) at which TANESCO was planning to sell the house to Rashid. In total, Shs 1.4 billion was spent on refurbishing seven TANESCO staff houses (Mosoba 2009; Thisday reporter 2009).

²²⁹ Interview G, 09/04/09. Under Minister for Energy and Minerals Al-Noor Kassum, responsibility for coal, iron and steel was transferred to the Ministry of Industry and Trade, with investment issues delegated to the NDC, which is 'under' the MIT (Kassum 2008:145). Thus NDC's interest in coal-fired power generation.

²³⁰ Coulson 1980; Parker 1979. See Kahama 2010, Chapter 7 for one account of the NDC from the late 1960s to 1973.

²³¹ The privatisation and renationalisation of the Kiwira Coal Mine is described in a subsequent section.

another 400 megawatt coal-fired power plant joint-venture with an Australian investor in Mbinga-Ngaka, Ruvuma Region.²³²

Coal-fired power generation was not among the 'least-cost' options in the MEM's strategic power plan described above, and it is not clear how the NDC agreement with Siemens was supposed to fit in with the MEM's power demand projections.²³³

We have dwelled at length on the power sector because it is by far the most striking and well-documented example of political involvement undermining the formal policy process that is designed to deliver public goods. We report insiders' views that both corruption and incompetence (on the part of the politicians) and inefficiency (on the part of the bureaucracy) helped compromise the policy process.

The losses incurred as a result of the convoluted and inefficient rent-seeking described above amount to percentage points of GNI. Interviewee A made a general point on the basis of the IPTL case:

'We are very bad at project negotiation, management and supervision. We are inept. Corruption is a *fraction of the losses* incurred as a result of ineptitude.'²³⁴

Our review of utilities and infrastructure management gave examples of the appointment of senior officials and contract negotiations that arguably involved clientelistic processes. Senior politicians brokered deals without involving the individual companies or their parent ministries. Though irregular, such procedures would not matter so much if the outcomes involved the appointment of competent persons or the signing of robust agreements. The dire conditions of these public companies (insolvency, underinvestment in new services and maintenance, poor and unreliable services) suggest that these conditions do not generally hold.²³⁵

We may ask whether *ineptitude* (or a less loaded term implying low levels of planning, managerial, and coordination capacity) should be treated as a (semi-)independent variable helping to explain public goods creation performance in Tanzania. Certainly ineptitude played a key role in the Richmond debacle. We look more into this issue in **Appendix 1**.

We now examine in more detail how coordination and centralisation influence the practice of rent-seeking.

²³² Kimaro 2009. The deal was announced by the Ministry of Trade, Industries and Marketing, the 'parent' ministry of NDC, not the Ministry of Energy and Minerals, TANESCO's parent. In total, NDC plans total investments of USD 1.2 billion to generate 1,000 megawatts of power. The Deputy PS in the Ministry 'called [on?] Tanesco to see how they would prepare themselves to receive such huge power in the national grid.' Mnyanyika 2009.

²³³ The same applies to the current proposal, which is said to require USD 660 million (Thisday 31/07/09). NDC investments during ujamaa were often costly failures (Parker op. cit.). NDC appears to play no useful role as a state investment finance company. Its most recent joint-venture proposal is to exploit Lake Natron's soda ash reserves, an idea that has been condemned by environmentalists and shunned by financiers.

²³⁴ Interview A, 08/03/09. Emphasis added. See **Appendix 1**.

²³⁵ We suggested that TICTS was a partial exception to the rule. NetGroup also did a reasonable job for TANESCO.

6.2 Rent-seeking coordination and centralisation

The Richmond case discussed above is an example of disorganised, incompetent rent-seeking and extortion, which suggests a weak coordination role at the political centre. It is implausible that the president and top party leaders were unaware of what was going on.²³⁶ While the above discussion demonstrates weak coordination and centralisation of rent-seeking, we cannot generalise from single cases. Coordination involves *making decisions on which important rents are created and allocated*. At a general level, a developmental elite with a long time horizon is concerned to select the highest priority capital investment projects, the best contractors and the most efficient means of implementation. Coordination is also required to develop an industrial strategy designed to allocate rents to productive sectors and enterprises as part of a wider accumulation project ('primitive accumulation'). Coordination can be counterproductive if the wrong investment projects are selected, if projects are allowed to develop but are slowed down or cancelled at an advanced stage, if inefficient monopolies are created or protected or if rents are allocated to companies that are not competitive or part of a larger strategy. Decentralised rent-seeking rules out the possibility of developing an industrial strategy.

A number of our respondents argued that in contemporary Tanzania a partial coordination role is played to the advantage of narrow groups of companies and individuals, often for personal reasons, but is played neither efficiently nor effectively. Are there any political constraints on rent-seeking, for example, within the inner circle of the ruling party, or among a wider group of political insiders? To what extent is large-scale rentierism centrally initiated and coordinated?²³⁷

Rent-seeking is *centralised* when the head of state, designated individuals or an agency within the state apparatus under presidential control are directly involved in the identification and negotiation of large rent-seeking projects. A powerful ruling group will threaten to impose sanctions against private and public actors who launch projects without their knowledge or prior approval.²³⁸

A centralised rent-seeking regime with a functioning coordination mechanism has the potential to create more and better, and more equitably distributed, public goods than a state in which rent-seeking is de-centralised and uncoordinated. A state characterised by weak administrative capacity and

²³⁶ At the very least, the President was not being properly advised. There is an unwritten law that the president must always be assumed to be ignorant of the corruption practiced by those around him. The evolution of 'plausible deniability' from Nyerere to Kikwete would be an interesting research theme.

²³⁷ The possibilities are that a formal or informal political centre (the President and close associates group) may either initiate its own rent-seeking activities (on and off-budget) to maintain and strengthen its political base, or award opportunities to capture rents to specific networks or groups in exchange for some of the spoils.

²³⁸ A major task of an incoming president is to position himself vis-à-vis the major rent-seeking initiatives sanctioned by his predecessor, particularly when these are the subject of critical public debate. Mkapa distanced himself from the excesses of the Mwinyi years by initiating a high-profile anti-corruption policy. Examples of 'distancing' from the Mkapa-Kikwete transition are the sale of government houses, mining contracts, and some privatisation deals, including Kiwira, discussed in the text.

inability to share information across departments and ministries is unlikely to be able to develop efficient centralisation and coordination mechanisms.

Since rent-seeking is systemic, not all of it can be plausibly coordinated or centralised. Much public predation and extortion are tolerated by rulers as a means of keeping underpaid government officials happy (virtual 'patronage spending'). Symbolic or real sanctions are imposed on those who go too far or try to 'eat alone.' Though individual cases of these rents-seeking practices may not be very significant, their collective impact may be extremely deleterious on public goods creation, service delivery and the IBE.²³⁹

Uncoordinated and decentralised rent-seeking risks becoming competitive and can deteriorate into a downward spiral of plunder, extortion and patronage spending. This can happen, for example, with a weak president or the emergence of serious factionalism in the ruling party or group. On the other hand, the rise of a competitive political system may trigger efforts at centralisation in the rent-seeking process.

While centralisation is mainly *political*, coordination is largely *institutional*, though there is an overlap. Centralisation means that a powerful ruler can mobilise centripetal forces to promote long-term accumulation, whereas a weak leader cannot.²⁴⁰ Coordination cannot be achieved by the ruler alone but must be 'subcontracted' through principal-agent arrangements to a group of trusted supporters. This is problematic since agents may become major rent-seekers in their own right, and prevent vital information flowing back to the leader. Only informal sanctions can be brought to bear without provoking damaging, potentially public, rifts. Just as it is difficult to formalise the informal economy, it is difficult to formalise rent-seeking under clientelistic accountability mechanisms. *Inter alia*, this means that routine bureaucratic practices will be systematically undermined by personalised considerations, rent-seeking among them.

Our interest is to investigate whether coordination and centralisation of rent-seeking promote or undermine public goods creation, with potential knock-on effects on investment and growth. There are two main relationships to consider. Which rents are compatible with improving social and economic infrastructure at reasonable cost in pay-offs? Are rents being diverted from public goods creation into productive private investment?²⁴¹ An aggregate benefit results from the investment being more productive than the public goods foregone.²⁴²

²³⁹ The greatest costs of generalised rent-seeking are to be counted in lives and livelihoods lost and ruined. On May 21, 1996, the heavily overloaded ferry MV Bukoba capsized on Lake Victoria near Mwanza and an estimated 800+ passengers drowned. Those responsible were never brought to justice (Simango:2009).

²⁴⁰ 'Decentralisation' does not have a strong internal (national) dimension: most of the major rent-seeking takes place within Dar es Salaam.

²⁴¹ In Khan's terms, are rents state-constraining or private sector-constraining or not?

²⁴² These are quite abstract propositions that would be very difficult to test empirically. Even more daunting is demonstrating how rents contribute to maintaining the peace within the ruling elite and its supporting coalition in a relatively stable polity like Tanzania in the absence of a counterfactual. One cannot prove a negative (the absence of violence/conflict).

Rents which are both centralised and coordinated are theoretically the most promising as regards *promoting investment and growth*.²⁴³ For example, on balance, privatisation has been economically beneficial, even though rents/corruption were generally involved in the process. At least some of the rents from the Alex Stewart contract (**Textbox 2**) have been invested in productive activities, including hotels and tourism.²⁴⁴ The sale of houses to senior politicians and government officials in 2005, involving large rent transfers, led to a veritable explosion of investment in house building and upgrading in up-market locations in Dar es Salaam, financed, perhaps, by additional predation.²⁴⁵

Other examples could be cited where activities combining elements of looting and rent-seeking produce potentially beneficial outcomes from an investment perspective. But there are risks. For example, in August 2004, the Kiwira coal mine in Mbeya Region was sold, it is claimed, far below value to a company owned by President Mkapa and his minister of Energy and Minerals Daniel Yona and their families. The Chinese government was prepared to invest USD 400 million in developing the mine. During the 2009 budget session the GOT announced its decision to *renationalise* Kiwira, and is proceeding with the Chinese investment.²⁴⁶ The lesson here is that political succession may threaten deals brokered during the previous regime.

The major public procurement deals listed in **Figure 9** involve some degree of centralisation and coordination. More than one interviewee suggested that EPA had both a ruling party and an opportunistic dimension, as discussed further below. The coordination function for military projects (BAe radar; military vehicles and helicopters) was subcontracted to a single agent, or rent-broker, as defined above. **Textbox 8** profiles some well-known rent-brokers.

²⁴³ Part of the argument is that, since non-salary public spending is so inefficient and wasteful, large-scale public looting and rent-seeking may result in (more) beneficial private investments. This is also an argument for reducing the tax take as a proportion of GNI and reducing the role of the state in providing non-priority services.

²⁴⁴ Former Minister of Finance Basil Mramba, one of Alex Stewart's beneficiaries, has invested in the hospitality industry in Arusha. Still a backbench MP, he is currently on trial for abuse of office.

²⁴⁵ President Kikwete was one beneficiary of the sales. Despite public criticism and a promise by the President to reverse the sales, no senior official has been obliged to return a property to the state to date. The Tanzania Building Agency, which is under the Ministry of Works, continues to consume public resources in building houses for civil servants and politicians. See Cooksey 2005b for a description.

²⁴⁶ Interview K (08/08/09). The USD 400 million project to build a 200 megawatt power plant was, according to our interviewee, supposed 'to show that Africans can put together a viable power project' in the aftermath of the Richmond fiasco. In June 2009 the GOT announced that it was *renationalising* the mine. The project is continuing with the concessionary Chinese loan, and the mine publicly owned. Interviewee K believes the project was sabotaged by one of Tanzania's premier business tycoons, who 'does not want to see anyone but himself succeed.' This claim has not been cross-checked.

Textbox 8: Danger, rent-brokers at work

Most of the major procurement and contracting scandals of recent years have involved rent-brokers, who develop close relations with key actors in the bureaucracy and political system. **Sailesh Vithlani** is the rent-broker for the 'dual-purpose' radar, military vehicles and helicopters, and a presidential jet, involving an estimated USD 250 million worth of procurement (NE: USD 11.5 billion) from well-known **British, American and Italian** companies. Born in **Mwanza** in 1964 and with only a secondary-school education, Vithlani has been in hiding for the last two years as the UK and Tanzanian authorities attempt to arrest him in relation to the BAe radar deal. Investigations by Britain's **Serious Fraud Office (SFO)** revealed that British Aerospace (BAe) paid Vithlani USD 12 million (30% of contract value) on top of his 'legitimate' broker's fee, out of which he paid off top Tanzanian military and government officials. It is widely believed that the radar finance (a soft loan from **Barclay's Bank U.K.**) was brokered by **Sir J. K. ('Andy') Chande**, a Dar-based businessman and philanthropist with extensive experience of *arbitrage* between the private sector and the Tanzanian state dating back to the Nyerere years. Chande, who is considered the **Godfather** of Hindu rent-brokers in Tanzania, was awarded a knighthood in 2003 'in recognition of the valuable services ... rendered to UK-Tanzania relations, and to the voluntary sector worldwide.' Chande is Chairman of Barclay's Bank (Tanzania) Ltd, which reopened in Dar es Salaam the year after the radar contract was concluded. Vithlani's deals teach us that, since public funds ultimately finance all the projects listed, it is only of secondary interest that the immediate finance came from private banks (see military spending, **Table 3**). Perhaps Vithlani's and Chande's role in brokering finance may help explain why the Tanzanian military involved them in the radar deal. In 1995, **BOT Governor Idris Rashid** opposed a proposed USD 85m loan from **Bankers Trust** to purchase radar equipment using gold reserves as security. Finance Minister **Jakaya Kikwete** defended the proposal at a **Consultative Group** meeting in **Paris** saying "there is nothing corrupt or underhand..." The SFO have named **AG Andrew Chenge** and Rashid as recipients of part of the BAe bribe money.

Sources: Cooksey 2008; Chande 2005:194. Fienstein 2012.

The Meremeta gold mining project directly involved the Tanzanian army, with a consequent drain of over USD 130 million from the BOT to a South African joint venture partner. CCM denied claims that they were involved in the company that took over Meremeta's liabilities and continued receiving payments from the BOT as explained in our gold mining study.

Asymmetric access to information means that the real (direct and transaction) costs of deals are only known to the brokers, so it is possible that they cream off the lion's share of the rents.²⁴⁷ In the radar deal, one former minister is known to have received a USD one million payoff, on a USD 12 million payment by BAe.

Does this pattern of predation and rent-seeking offer possibilities for primitive accumulation? The likelihood is remote. Higher priority public goods are foregone in procuring military and related hardware.²⁴⁸ On balance, centralised and coordinated rents related to these and other major

²⁴⁷ Elaborate deals take years to implement and involve considerable transaction costs to the broker. Rents from one deal are invested in the next one. Still there is a strong view that the middlemen take 70-80 percent of net profits from rent-seeking. The richest Asian middlemen keep the bulk of their wealth abroad, which implies massive illicit financial transfers.

²⁴⁸ The BAe radar could have been procured for a fraction of the price, or supplied as aid. The maintenance and running costs of the presidential jet and 'military' helicopters are high, though two of the four helicopters have already crashed and the presidential jet is frequently grounded.

procurement deals appear highly negative in their overall impact on the country's development potential, as measured by public goods foregone. The opportunity cost of keeping the military 'on side' is public goods, investment and growth foregone.

The exploitation of natural resources is a major source of 'decentralised but coordinated' rent-seeking that serves to reduce state revenues through the privatisation of regulatory functions. We have already described illegal logging and the award of fishing and hunting licences.

An interesting example of apparent long-term private sector 'capture' involves the Department of Wildlife in the Ministry of Natural Resources and Tourism (MNRT).²⁴⁹ 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 block allocation, and earnings from up-market hunting safaris.

Incoming President Kikwete (2005) tried to 'clean up' the MNRT, but found the Director of Wildlife, Emmanuel Severre, particularly difficult to dislodge from his position, reflecting the serious political influence that the Director could mobilise. He was eventually transferred.

Figure 10 summarises the diverse networks coordinating state and private sector actors in capturing timber rents.²⁵⁰ The complex linkages between foreign diplomatic missions, government officials, private traders, and politicians suggests enormous rents from rent-seeking and plunder.

Do the revenues foregone through rent-seeking and predation of natural resources support a primitive accumulation strategy? Does private ownership and management of wildlife resources help or hinder their sustainable exploitation? The answers are not self-evident. Wealthy companies can better protect wildlife against poaching than under-resourced government wardens, whether their interests are in hunting or photographic safaris. On the other hand, allowing too many lodges and tented camps to be built in game parks threatens sustainability.²⁵¹

The quality of regulation affects the sustainability of renewable natural resource exploitation.²⁵² Poor regulation includes giving out too many licences and issuing licences opaquely and at below 'market' rates. Private interests may capture regulators, driven by the large potential rents. At the same time, large and scattered forest, sea and wildlife resources pose major difficulties

²⁴⁹ See Jansen 2009 and the discussion of foreign aid (below) for another example.

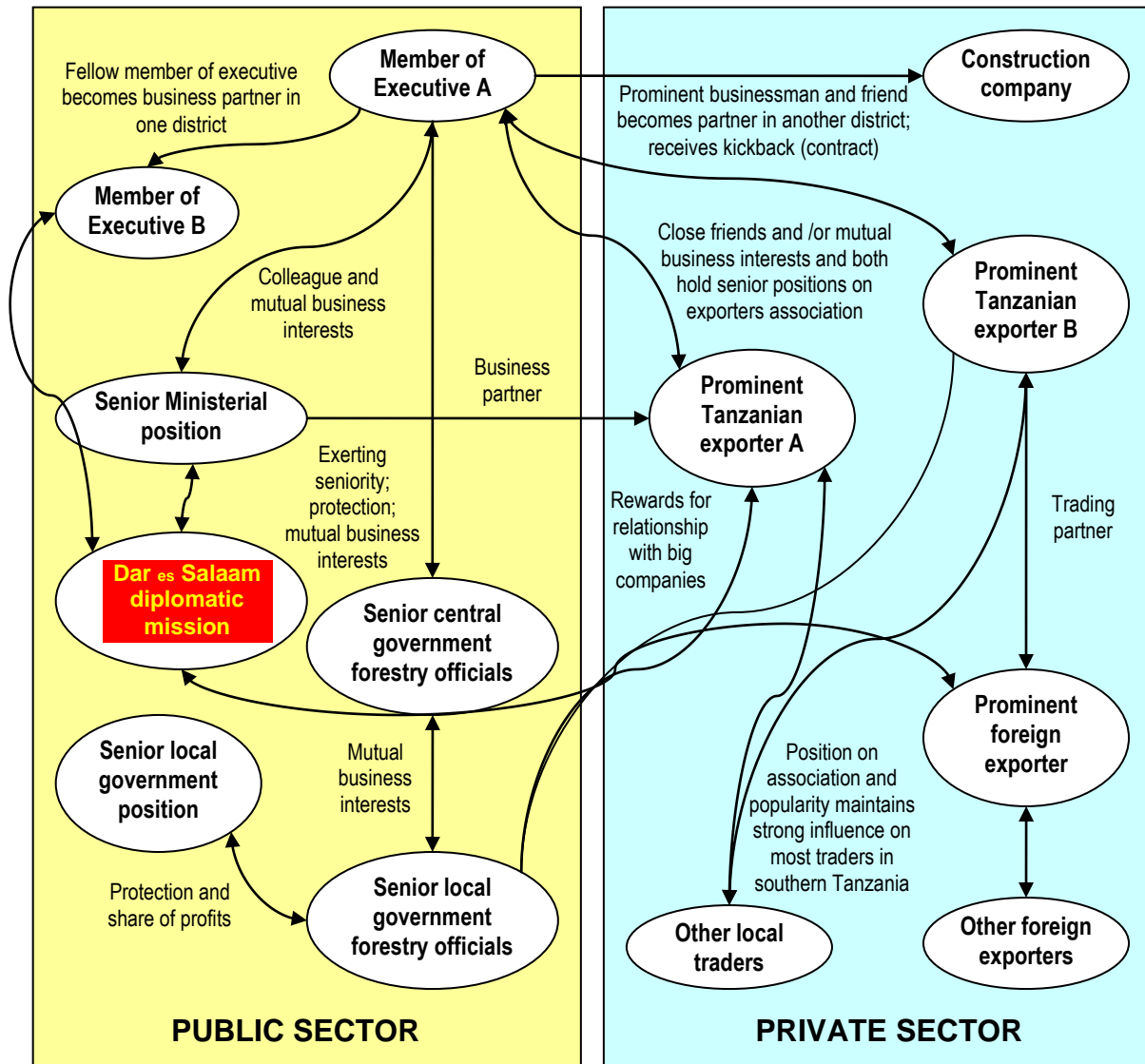
²⁵⁰ On 24 July 2007, the Minister for Natural Resources and Tourism, Professor Jumanne Magembe told the media in Dodoma 'that he had received a list of business people involved in illegal logging " ... "and I cannot touch some of those on the list ... because they are presidential appointees" (Hayuka 2007).

²⁵¹ Interviewee Y, no date.

²⁵² The decision, backed by the President, to build a trunk road across part of the Serengeti, has led to widespread condemnation from global and national environmental lobbies concerning the road's impact on the annual wildebeest migration. The GoT also plans to build a new port in Tanga to facilitate fertiliser exports from the controversial Lake Natron soda ash project. The 'Northern Corridor Development Plan' and the proposed port risk destabilising three conservation areas of international importance: the Tanga Coelacanth Marine Park, the Lake Natron Ramsar Wetlands and the Serengeti World Heritage Site (Kisembo 11/09/10).

for even conscientious governments to enforce laws and regulations.²⁵³ We conclude that, in general, the capture of natural resource rents poses a particular threat to Tanzania. Far from creating public goods, unregulated exploitation can lead to a ‘tragedy of the commons’ that will further undermine efforts to achieve growth and poverty reduction.

Figure 10: Linkages between stakeholders involved in the timber trade, 2004/2005²⁵⁴



Other diverse examples of rent-seeking that are usually not politically centralised but are important enough to be coordinated are: wasteful public spending, unnecessary studies and consultancies, and guaranteed loans to state corporations and cooperatives (mostly forms of ‘looting’). We have proposed that wasteful public spending (little or no value for money for

²⁵³ After a lull, large-scale ivory poaching in the south of the country has re-emerged as a major problem. According to official figures, poachers have killed 30,000 out of Selous game reserve’s 70,000 elephants in the last three years. China is the main destination for smuggled ivory (Hartley 2010).

²⁵⁴ Source: TRAFFIC 2007:126 (modified).

services delivered, purely self-serving patronage activities among state functionaries) compromises both the quantity and quality of services provided to the public. The question already posed is whether the private uses to which rents are put (consumption, saving, investment) yield greater benefits than the costs incurred. This topic should be the subject of more conceptual reflection, including a clearer definition of the underlying problem.²⁵⁵

Most rent-scraping (petty corruption) is by definition decentralised and uncoordinated. Routine procurement and contracting come into this category ('looting'). The 2004 procurement act decentralised procurement to MDAs, as described above. This means that substantial tenders are awarded by MDAs (**Table 3**), in theory on the basis of competitive tendering. Such rent-seeking opportunities may attract top officials and ministers, but are generally unlikely to be the subject of cabinet- or higher-level discussions or decisions.²⁵⁶

Our review of coordination and centralisation tendencies suggests that these functions are identifiable in certain key deals, but that they are generally not performed in a manner that protects the public interest.

Rodrik argues for a hands-on approach by governments trying to promote an industrial strategy, though he realises that:

'Any system of incentives designed to help private investors ... can end up serving as a mechanism of rent transfer to unscrupulous businessmen and self-interested bureaucrats. The natural response is to insulate policymaking and implementation from private interests, and to shield public officials from close interaction with businessmen.'²⁵⁷

²⁵⁵ If the state fails to play a constructive development role, then the development of a dynamic private sector, especially of nationally owned and managed businesses, will be seriously compromised.

²⁵⁶ For example, in one set of tenders in FY 2008/09 the Ministry of Education and Vocational Training procured goods and services worth TShs 3.4 billion (USD 2.8m). One company secured nearly a quarter of the total value with a contract to supply 'specialized equipment' worth TShs 773 million (over USD 644,000). (Daily News, 03/08/09). The contract went to a company registered in 2004 'selling and distribution of school books.' (BRELA records, accessed 04/08/09). A veteran local book publisher described the tender winner as "a most corrupt bookseller..." (SMS of 07/08/09). Widespread rent-scraping is behind the failure of the GOT to provide textbooks to primary and secondary schools in adequate numbers despite large amounts of earmarked donor support over many years. The state monopoly of textbook publication and distribution was formally abandoned in 1992, and private publishers came back into the textbook market. Since then, the MOEVT has played a cat and mouse game with private publishers and distributors. In November 2008, the MOEVT proposed to reintroduce the 'one textbook' policy for secondary schools, jeopardising private publishers' investments and returning a curriculum development and publishing monopoly to the Tanzania Institute of Education (TIE) that it had failed to manage in the past. Spot checks in different towns revealed drastic shortages of textbooks and evidence of 'corruption, diversion of funds and ... misappropriation.' Kimaro notes that it does not matter so much which system is in place, but how well the preferred system is managed (informal interview with private publisher, August 2010; Kimaro 2008; Mosoba 2008; Citizen Team 2008).

²⁵⁷ Rodrik 2004.

Since the end of Ujamaa (self-interested) politicians and bureaucrats have been able to interact freely with the private sector, and (unscrupulous) businessmen have become active in lobbying politicians and bureaucrats for individual advantages.²⁵⁸ Formal business organisations have not been particularly successful in promoting collective solutions to problems in the IBE. We conclude that at present neither the ruling elite nor a key group within the bureaucracy has the capacity or the incentive to initiate a consistent, long-term pro-business strategy that would make Tanzania's IBE competitive for both local and foreign businesses. This shortcoming is compounded by the state's inability to turn taxes and foreign aid into public goods in an efficient and effective manner.

²⁵⁸ The more scrupulous businesses are the least likely to prosper. We have seen that having to resort to time-consuming, possibly costly and not necessary successful lobbying seriously undermines the IBE. Decisions favouring individual businesses cannot make up for the failure of formal sector-wide regulations to guide state-business interactions.

7.0 Rent-seeking, political inclusion and ideology

We now turn to our final task, which is to interpret the patterns of rent-seeking described above in terms of underlying explanatory variables. Much of our discussion has been concerned to identify rent-seeking regularities in the absence of an explicit theory of agency and motivation. The major paradigms used to analyse rent-seeking behaviour are rent theory itself, corruption and clientelism.²⁵⁹ So far, we have largely employed the rent discourse, but have not investigated motivation or incentives in any depth. Khan stresses political inclusion and competition as factors driving elites to create and distribute rents. We examine these issues below. Can the two other paradigms help deepen our understanding of agency?

7.1 Corruption and clientelism

Much of the rent-seeking reviewed in this report is popularly described as 'corruption'. Transparency International succinctly defines corruption as the *abuse of entrusted power for private gain*. A weakness of this definition is the assumption that self-seeking behaviour, motivated by greed in the absence of accountability, largely explains rent-seeking practices. Solutions are therefore sought in greater government transparency, including democratic checks and balances inside and outside the state. The widespread failure of recent reform initiatives based, in part, on these premises suggests they are addressing the manifestations of the problem, not the underlying causes. 'Corruption' is an inevitable (however morally distasteful) fact of political life, particularly in nations with weak states that are vulnerable to conflict and violence as a result of historical inequalities and enmities. Such states risk becoming chronically unstable (if they aren't already) when historically derived patronage systems become monetised.²⁶⁰

The concept of *clientelism* offers an approach to rent-seeking rooted in social structure and institutional norms. These are historically derived and provide actors with powerful incentives to behave in certain ways and not in others. A danger of this approach is that it can easily morph into cultural determinism, in which actors are characterised as virtually trapped in primordial relationships based on community, kinship or other particularistic identities.²⁶¹ Nevertheless, the existence of patronage networks within society,

²⁵⁹ See Hutchcroft 1997 for a useful if dated summary. The author stresses the need to incorporate the role of violence/coercion into studies of rent-seeking/corruption/clientelism.

²⁶⁰ In an insightful article, De Walle (2010:38-41) describes the 'political marketplace' in states with weak central governments, secessionist movements, insurgencies, warlordism, and so on. Temporary peace is maintained in such weak states by buying off rival factions with money and concessions. Foreign involvement (peacekeeping, humanitarian and development aid) strongly influences government and rebel bargaining strategies. In weak states not plagued by centrifugal forces 'violence can be held in check by strong patronage systems.' The author cites Senegal and Tanzania as examples.

²⁶¹ Goran Hyden has been accused of this tendency in his stress on 'the economy of affection' as the main constraint on attempts to orchestrate 'modern' economic development (Kimambo et al 2008).

polity and economy alert us to the possibility that they may play an important role in the creative management of rent-seeking, in a word, *rentierism*.²⁶²

We suggest a hybrid model that contextualises individual and group decision-making within a paradigm that includes political imperatives, self-interest, institutional norms and ideology. Both individual and collective action imply decision-making processes linking ends and means. Where decisions are strongly influenced by ideological factors they may frequently appear 'illogical' from a rationalist perspective.²⁶³

7.2 Rent-seeking, political inclusion and competition

First, we distinguish between contingent and underlying political factors. In terms of the latter, Tanzania has traditionally been characterised as a polity largely lacking the divisive ethnic and regional divisions and conflicts that characterise so many African countries. Excluding Zanzibar, Tanzania does not have significant organised, vocal constituencies based on class, ethnicity/region, religion or other ascriptive criteria that have to be bought off if possible, and that command huge patronage rents in politically fractious countries like Nigeria and Kenya.²⁶⁴ Tanzania's relative 'peace and tranquillity' have been explained in terms of historical accident (no dominant ethnic group, no enclave development based on agriculture or minerals) and the success of Nyererian statecraft (relatively inclusive politics, ideology and culture).

Sectarian interests have also been politically insignificant in the post-independence period. Trade unions, youth, women and the cooperative movement were wings of the ruling party until the advent of political liberalisation in the 1990s, when trade unions and cooperatives became autonomous and youth (*Umoja wa Vijana CCM*) and the women's wing (*Umoja wa Wanawake Tanzania*) remained as party organs. The largest beneficiary among this group of organisations is probably the cooperative movement, which has enjoyed a modest renaissance in the last few years after suffering a major decline under liberalisation.²⁶⁵ Vote buying and intrigue are involved in securing leadership positions in all four organisations,

²⁶² We do not have space to discuss neo-patrimonialism. The term is of some use in reminding us that formal institutions do exist and to some extent orient action. But the concept is too broad to be easily operationalised, and we consider our battery of concepts to be adequate for our purposes without it.

²⁶³ See Parsons (1949:642) for an exegesis of Weber's concepts of *Zweckrationalität* and *Wertrationalität*. Ideology can be seen to drive both *wertrational* and 'affectual' social action. *Zweckrational* action is the means-ends calculation that typifies legal-rational domination.

²⁶⁴ A study of this issue in Zanzibar would examine the relationship between the use of force and the use of rents in keeping political conflict under control.

²⁶⁵ Kahama 2010, chapter 12 provides an overview of the state-led revival of cooperatives during the period 2000-05 under Minister of Cooperatives and Marketing George Kahama. The cooperative 'movement' has long been centrally controlled, and politicised. Larger unions enjoy substantial rents in the form of state transfers through underwriting debts incurred to private banks. Patronage politics in the agricultural sector is beyond the scope of the present review.

suggesting that these are quite strategic positions to occupy.²⁶⁶ Trade unions have been quite vocal in the build-up to the 2010 presidential elections.²⁶⁷

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. Certainly the major spending on military procurement in recent years described above makes the military a major player in the rent-seeking game.²⁶⁸

Threats to rent-seekers from the parliamentary process elicit two reactions from the ruling elite: patronage and the threat of de-selection or violence. The literature points to the weaknesses of the parliamentary system in terms of enforcing accountability, especially imposing sanctions ('answerability') on executive malpractice. Most ruling party MPs are kept relatively quiescent by their large salaries and allowances and opportunities for involvement in further patronage and corruption networks.²⁶⁹

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.²⁷⁰

Inflating cabinets is a way of distributing patronage. 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.²⁷¹

As a result of political liberalisation, the ruling party has mobilised its strategic control of public resources (on and off budget) to protect its hold on power in an increasingly competitive political environment. Within the ruling

²⁶⁶ Significant rents in these organisations include selling and renting land and real estate. The present head of UWT was said to be bankrolled by CCM's senior deal-maker. A former prime minister and prominent Asian rent broker have been implicated in a property scandal involving UVCCM.

²⁶⁷ In 2008 the teachers union almost went on strike and the following year trade union leaders began a campaign for an increased minimum wage, condemning the excessive use of allowances (Cooksey 2010a).

²⁶⁸ See **Appendix 2**.

²⁶⁹ 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 sitting allowance (USD 67), subsidised fuel allowance, large car loans 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.

²⁷⁰ In the build-up to the 2010 elections, the personal life of Chadema's presidential candidate received much media coverage (see Lusekelo 2010). 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.

²⁷¹ 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 percent) of whom are directly elected.

party, the use of rent-seeking of all types to advance the interests of a group of *rentiers* intent on taking control of the party has also heightened pressures to loot the public purse and natural resources.²⁷² Both trends are accompanied by the rise of money as the only important political ‘means of exchange’.

The build up to the 2005 elections saw an increase in politically motivated rent-seeking, as the ruling party²⁷³ sought funds for the elections and candidates sought to buy votes in the presidential candidate selection process. **Textbox 9** looks at the first of these.

Textbox 9: 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 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 BOT’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 **Merimeta**, discussed above). Attempting to quash rumours, **CCM Secretary General Yusuf Makamba** denied that ‘CCM has any business links to Deep Green.’ The Governor of the BOT was eventually forced to resign. (He later died in the US, though his body was not brought back to Tanzania for burial). Subsequently, numerous BOT 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. Ironically, TShs 40 billion of the returned money was said to have been allocated to the **Ministry of Agriculture** to purchase subsidised fertiliser (see text) and nearly TShs 4 billion ‘were added to salaries of the board (sic?), institutes and staff of the ministry.’

Source: ThisDay reporter, October 2007, cited by Policy Forum 2009; URT 2008; ThisDay Correspondent, July 2009; wikileaks, accessed 08/08/10.

Not all the EPA money was used for electoral purposes. What started off as a ‘*mradi wa chama*’ (CCM-sponsored project) soon became a free-for-all as new actors, including BOT staff, came to claim their ‘entitlement’, as described above.²⁷⁴

²⁷² This might be considered historically ‘progressive’ if virtual ‘state capture’ was motivated by a developmental vision and designed to replace a perceived corrupted political system. However, there is no sign that this is the case.

²⁷³ The role of ‘the party’ should not be exaggerated: since the partial dismantling of the one-party state the executive (president and cabinet) and the bureaucracy have largely replaced CCM as the key source of patronage, clientelism and rent-seeking. Membership of CCM is largely instrumental, giving rent-seeking networks a home base from which to pursue their diverse agendas.

²⁷⁴ After the EPA and BoT twin towers scams, and much donor pressure, the senior management of the BoT was shaken up and the appointment of a well-respected ex-World Bank staff member to the governorship restored some confidence.

Is patronage spending a better investment of EPA money than paying it back to its creditors? We have argued that much of the EPA money was probably sent abroad, and it would take a detailed study to establish how much of the looted money led to consumption, saving or investment in-country. We consider the vying for top office type of political rent-seeking in the next section.

Although enhanced political competition is praised by the advocates of democracy and good governance, the costs involved in the ruling coalition's attempts to stay in power—small bribes to voters, larger bribes to selection committees to secure nomination, war chests to finance campaigns, including advertising, violence and intimidation in close-run competitions—may become excessive. On the other hand, before elections the ruling party may authorise spending that actually creates a few public goods!

The project initiated by Aziz, Kikwete, Lowassa, Chenge and others was to 'capture' the political centre through plunder, collusive rent-seeking, and strategic redistribution. These rents came from various sources, including the EPA, discussed above in connection with financing CCM's 2005 campaign. Kikwete's attempt to distance himself from this group since 2005 is the cause of the current unresolved divisions within the ruling party.

Textbox 10 describes the process of securing the ruling party presidential candidature for the 2005 elections, which, given the dominance of the ruling party, was tantamount to securing the presidency.

Textbox 10: Money politics and the 2005 presidential elections

Candidates for the 2005 presidential elections were backed by business interests, both local and foreign. **Jakaya Kikwete** led the field in opinion polls for the **CCM** nomination for some time. In two detailed investigative articles, **Stanley Kamana** claimed that **President Benjamin Mkapa** shelved reports on the candidates compiled by CCM's security and ethics unit on the grounds that none of the short-listed candidates was beyond reproach. The three finalists whose names went to the CCM general congress were Kikwete, former OAU chief **Dr Salim Ahmed Salim** and **Professor Mark Mwandosya, Minister of Communications and Transport**. These three were selected from a list of five by the **National Executive Committee** of CCM. Kamana quotes an unnamed member of the NEC: '... the party chairman [Mkapa] ... sounded a bit apologetic, especially when he declared that since none of the aspirants could be regarded as "Mr Clean", then the party should settle for the least corrupt of the ... aspirants.' Compiled by CCM's chief executive **Philip Magula**, the reports singled out Kikwete and **former Prime Minister John Malecela** '... for excessive use of money in their campaigns.' Only the intervention of CCM elder statesman **Rashidi Kawawa** saved Kikwete from disqualification on this score. Malecela was the victim of 'pointed criticism' by another CCM heavyweight **Kingunge Ngombale-Mweru** and **Minister of Finance Zakia Meghji**. Subsequently, **Emmanuel Nchimbi**, chairman of the ruling party's youth wing, warned losing aspirants for the presidential nomination not to try to 'divide CCM', threatening to expose their 'misdemeanours and dirty undertakings' if they insisted. In the final round, Kikwete obtained 1,072 votes, Salim 476 and Mwandosya 122.

Source: Kamana (2005a, b)

Increasingly, Tanzanian politics are money politics.

Edward Lowassa, Prime Minister in the first two years of the Kikwete presidency, was part of the small group that brought Kikwete to power. Lowassa's early ambitions for high office were thwarted temporarily by Julius Nyerere, who, prior to the 1995 elections, famously questioned how he had become so rich so quickly.

Rostam Aziz is Tanzania's best-known political broker. Of Persian origin, Aziz, who is in his 40s, is 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, which had a huge negative impact on the national economy, and the earlier EPA scandal became public knowledge. Aziz owns Caspian Construction Ltd, a number of newspapers, and is a 35 percent shareholder in Vodacom Tanzania, a leading mobile telephone company. He is the nearest Tanzania has to an 'oligarch'.

There have been at least two major negative consequences of the rise of money politics at the political centre. First, the state has lost much of its legitimacy, gifting huge political capital to the opposition.²⁷⁵ Second, this increases the likelihood of enhanced competitive rent-seeking, both on- and off-budget, in the build-up to the 2010 elections.

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 at the expense of the long-term interests of the country. 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.'²⁷⁶

Far from heralding a new order of political and economic virtue, and confirming the hopes of 'good governance' advocates,²⁷⁷ competition could result in politicians adopting an increasingly short-term political perspective, where beggar-my-neighbour opportunism dominates long-term concerns with socio-economic growth and development.²⁷⁸ Present levels of 'market-restricting' rent-seeking would consequently increase. Such a scenario makes coordinated rent-seeking for purposes of accumulation a less and less likely project. One of our younger respondents believes that:

'There's no-one in the government with the business acumen to set a business agenda for the country. The large Asian business interests

²⁷⁵ The 'good governance' advocates consider this public awareness a good thing, since it provides a basis for enforcing democratic accountability. It also provides a basis for demagoguery and lawlessness.

²⁷⁶ Interview H (04/04/09).

²⁷⁷ None of our research findings suggests that the current government governance strategy, including anti-corruption efforts, stands much chance of addressing rent-seeking. Donor support can only have a marginal impact since it does not and cannot address the underlying forces.

²⁷⁸ Kenya and Uganda have advanced further down this road than Tanzania.

do not care sufficiently about the national interest or the political environment.’²⁷⁹

7.3 Ideology and institutions

A plausible view is that the transition from ujamaa and the one-party state to a market economy and competitive politics has unleashed the latent forces of patronage that the first phase government managed (up to a point) to hold in check, leading to the systemic predation and rent-seeking practices described above. A related view is that the underlying ascriptive fault lines of Tanzanian society--including race, religion, culture, class, and levels of local development--will become the main ‘drivers of change’ within the logic of heightened political and economic competition described above.²⁸⁰

The weight of history makes it difficult for most Tanzanians, including high-level politicians and bureaucrats, to ally themselves enthusiastically with a liberal-capitalist development ideology. While self-interest drives rent-seeking by private actors, the political class is also motivated by ideology. We argue that Ujamaa, nationalism and populism are interwoven in a complex web of meaning that defies straightforward analysis. Both national and racial subtexts were implicit in Tanzanian socialism and continue to inform the current ideological mix.

Historically, Tanzanians, like most Africans, retain a memory, now mostly a folk memory, of colonial humiliation and oppression.²⁸¹ This helps us understand Tanzanians’ lack of trust in foreigners, including investors.²⁸² 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.²⁸³

The ruling elite’s inherent lack of sympathy for Asian- and foreign-owned business interests inhibits the creation of a (formal or informal) forum for encouraging investment in strategic growth sectors and activities, without which the likelihood of achieving long-term growth and poverty reduction are

²⁷⁹ Interviewee L, 28/02/09. A separate study of Asian business could examine this claim.

²⁸⁰ We might add *age* to the list of ascriptive criteria. The Lowassa-Kikwete-Rostam group was once described by a Dar es Salaam humorist as ‘Boys to Men’. The intervention of the Youth Wing of CCM was critical in securing Kikwete’s nomination in 2005. Most potential voters are under 30. Most of the Asian political and rent-brokers are under 50. Age as a relevant political variable would be well worth a mini-study. We are not convinced that sex/gender is a very important independent ascriptive variable from the political and rent-seeking interface point of view. The few women reaching the top echelons of the government have got there by participating in the same networks as their male colleagues.

²⁸¹ Writing in 1960, Sophia Mustafa observed: ‘I always found the ... educated Africans, particularly those who had been abroad, very frustrated and quite rightly so’ (Mustafa 2009:17). ‘We must learn to forget the arrogance and prejudices and also the irritations and humiliations of the past’ (ibid:135, citing J K Nyerere’s radio broadcast on 1 September 1960).

²⁸² Much FDI comes from South Africa, which offends many Tanzanians. In a 2007 national survey, REPOA found that ‘foreigners’ were the least trusted in a list of 18 different social groups. Sixty percent of respondents trusted foreigners ‘not very much’ or not at all.’

²⁸³ The anti-capitalist, anti-‘investor’ discourse of Professor Issa Shivji, Tanzania’s most respected public intellectual and activist, continues to inform the thinking of a large part of the country’s leadership and middle-classes.

remote. As a result, the modern private sector that is not part of the rent-seeking networks described in this report does not receive the official incentives and regulatory support that could help stimulate developmental growth.²⁸⁴ Without WB and other donor pressure to introduce pro-market reforms from the mid-eighties onwards, none of the pro-market economic reforms would have taken place.

The incumbents of state power are not fundamentally opposed to private capital *per se*; they are hostile to the dominant players and feel unfairly marginalised. Consequently, the state offers patronage opportunities to numerous favoured African-owned businesses. An important issue raised by respondents is whether former (or current) politicians, bureaucrats and state security personnel benefiting from their association with the ruling coalition to become serious players in the private economy have the qualities to become part of a national bourgeoisie rather than mere state-patronage dependent rentiers. We found examples of officials-turned-businessmen committed to market-driven national economic development, but others were more obviously beholden to state patronage for their private ventures. A number of senior retirees are involved in the hospitality industry, urban land and luxury property development in JVs with local and foreign partners. A more detailed study of this group's potential for stimulating 'primitive accumulation' is required.²⁸⁵

The empirical confusion between different '-isms' helps us interpret the frequent claim that since the end of *ujamaa* the ruling CCM party lacks a guiding ideology.²⁸⁶ 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.²⁸⁷

A final 'ism' worth mentioning in this review of Tanzania's ideological mix is the ruling party's resort to populism at the end of President Kikwete's first term in office. When President Mkapa handed over the reins of power to Kikwete in 2005, CCM made claims for substantive achievements during Mkapa's ten years in office (improved status of women, development of infrastructure, economic growth). Kikwete's 2005 popular platform was a broad commitment to 'greater impetus, zeal and momentum.'²⁸⁸ CCM billboards for the 2010 election campaign present the president as a man of the people, solicitous to ordinary citizens, including the old, and children.²⁸⁹ At the same time, heckling and violence have become common at election

²⁸⁴ Rodrik 2004 stresses the need for a strong state-private sector interface to improve information flows and identify priorities and bottlenecks. The interface may well be conflictual.

²⁸⁵ A Tanzanian respondent with an authentic capitalist pedigree was witheringly dismissive of this group's ability to survive and prosper in a competitive business environment.

²⁸⁶ An early example of this claim: the late CCM Secretary General Horace Kolimba claimed that 'since ... 1992 to date, CCM is yet to have a new and exciting vision for the public... Without a new vision and a sense of direction, the party is likely to remain dormant.' Cited by Mmuya 1998:18.

²⁸⁷ Socialism is still enshrined in Tanzania's constitution.

²⁸⁸ '*Nguvu mpya, ari mpya na kasi mpya.*'

²⁸⁹ One billboard shows an old black and white photograph of the president with his mother in a formal pose, caption: *upendo wa mama* ('mother's love'). Another shows him listening attentively to an old man with the caption '*mtu wa watu*' ('a man of the people').

meetings of ruling and opposition parties, a sign that political tolerance is on the wane.

Last, ideology is especially important for its affective dimension. Strong ideological sentiments inhibit *Zweckrationalität* decision-making as defined above. Rational decision-making is unlikely to flourish on ideologically charged issues, and collective actions can be taken that serve to undermine investment and growth, although these are not necessarily the *intended* outcomes.

This analysis may help us understand apparently contradictory behaviour by the ruling elite and its propensity to seek short-term rents at the expense of longer-term growth that could assure greater rents. It should be in the interest of the ruling elite to regulate markets efficiently so as to enjoy longer-term rents. Yet a number of interviewees were convinced that some senior officials would not worry overly if their regulatory practices led certain investors to close shop.²⁹⁰

The nature of the relationship between the ruling elite and key members of the business community largely determines the extent to which policy, regulation and rent-seeking contain a developmental element. Above we alluded to trust as a precondition for collaboration between different actors and sectors. Clearly effective collaborative rent-seeking between state and private actors requires a high degree of trust.²⁹¹ The obvious question is: how is such trust achieved? The clientelist paradigm privileges the asymmetric but powerful bond between patrons and clients. On what criteria could such a bond be based? Are rent-seeking networks based on ethnicity, kinship, religion, or other ascriptive criteria? What brings the Asian businessman and the government official to trust each other in collaborative rent-seeking transactions? In other words, what are the institutional norms that inform and channel rent-seeking activities? These are large questions and we do not pretend to have all the answers. The following observations emerge from our interviews and secondary analysis of the literature.

Politically motivated corruption at the highest level does not appear to have an identifiable ascriptive dimension. Rent-seeking networks can involve Christians and Muslims from different parts of the country, with different racial and ethnic profiles. What the official networks have in common is membership of the ruling party/state bureaucracy. What distinguishes them from the rest of senior party and government officials is their rentier agenda.

Since Nyerere's time, the state apparatus has been relatively inclusive. The presidency has alternated between Christian and Muslim, and cabinets generally reflect the regional/ethnic composition of the country. No president has ever hailed from a large tribe. However, many more state employees are

²⁹⁰ Large-scale gold mining is an example.

²⁹¹ Abdel-Latif and Schmitz (2009) argue that governments are most likely to act favourably towards the private sector when there is a *common interest* between policy-makers and investors. 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. Tanzania exhibits none of these characteristics (see Cooksey and Kelsall 2011).

Christian than Muslim, reflecting the historical educational disadvantage of the latter group.^{292 293}

Collusive embezzlement within ministries *may or may not* include an ethnic or religious dimension. Intrigues in government offices based on ethnicity or other criteria are the rule.²⁹⁴ 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,²⁹⁵ kinship or marriage.²⁹⁶ During the process of creating and strengthening patronage networks, participants find out who they can trust.²⁹⁷ 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.²⁹⁸

We have noted that rent-brokers on arms deals and the largest rent-seekers are generally of Tanzanian Asian origin.²⁹⁹ Since there is no economy of affection binding Africans and Asians together, this demands an explanation. The best explanation we can come up with is that arms companies prefer to work through agents rather than make payments directly to government officials in order to assure 'plausible deniability' if a deal is exposed, as in the case of the BAe radar. Trust may develop after a successful round of looting/rent-seeking has been concluded.

²⁹² Religious conflicts have not yet featured centre-stage in Tanzania, though the contemporary world-historical politicisation of religion and the 'war against terror' could change this in short order.

²⁹³ There were a few Europeans and Asians in senior positions in Nyerere's government, and Arabs under Mwinyi. Tanzania's most senior Asian bureaucrat/politician, Al Noor Kassum, an Ismaili, retired from government more than a decade ago. There are a number of Arab and Asian MPs, a few of whom are key rent-seeking networkers.

²⁹⁴ Some 'ethnic groups' are more or less hostile to each other; others enjoy joking relationships ('*utani*') with pre-colonial roots. Sometimes outrageous stereotypes are used to characterise certain 'tribes' in popular discourse: different groups are variously described as being litigious, dishonest, clannish, violent, carefree, over/undersexed, hard-working/lazy, backward, prone to practicing witchcraft...

²⁹⁵ Bourgooin and Therkildsen (2011) make the case for common experience of the education system as a key source of the Tanzanian elite's identity and solidarity.

²⁹⁶ It is common for senior state officials to have served in both the bureaucracy and the political system. Full-time politicians like Kikwete and Lowassa are a relatively recent phenomenon.

²⁹⁷ 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).

²⁹⁸ 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 go wrong.

²⁹⁹ The main exception, IPTL, has been poorly managed by the broker, leading to a serious and avoidable dissipation of rents.

Patronage implies asymmetries in status and power, and since these asymmetries are legitimated within rent-seeking networks, they may serve to lessen the risks inherent in principle-agent arrangements. Such normative influences may extend to the client/agent accepting that s/he may have to carry the can on behalf of the patron/principle in the event that the rent transaction is exposed.

8.0 Summary and conclusions

Provisional answers to our research questions are summarised below.

1. How does the Tanzanian state perform in providing public goods?

There is considerable comparative evidence that the Tanzanian state is extremely inefficient in providing public goods, including social and economic infrastructure and utilities. Reform programmes over the last twenty years to improve public administration and service delivery, finance management and the administration of justice have had some success, but have not been sustained or built upon. Large increases in the national budget from both local and external sources over the last decade have benefited central much more than local government, senior more than junior officials, and facilitated systemic waste and looting. Some of our respondents saw state performance declining as a result of current trends in political corruption and rent-seeking.

2. How does state performance in providing public goods influence the IBE?

As a result of the economic reforms the GoT introduced after the mid-1980s, the IBE for local and foreign investors improved considerably. Many underperforming state companies were closed or privatised, and macro-economic stability was achieved and (more or less) maintained. Local and comparative research suggests, however, that economic reforms have stagnated or gone into reverse in the last decade or so, leaving the country relatively uncompetitive from an investment perspective. Micro-economic regulation and parastatal management have been extremely poor, with utilities and infrastructure suffering from systemic rent-seeking and inefficiency.

3. What are the immediate determinants of state performance in providing public goods?

The immediate causes of poor performance in creating public goods are to be found in inefficiencies in revenue collection and public expenditure. These inefficiencies reflect the rent-seeking activities of public and private actors. We identify four types of rent-seeking: state predation (the theft of private resources by public officials), looting (the theft and waste of public resources by public officials), rent-seeking 'proper' (the capture of public regulatory power by private interests) and patronage spending (diverting public spending to private goods and transfers to constituencies supporting the ruling coalition).

Despite the narrow tax base, significant revenues are foregone through *widespread tax evasion*, *corruption* among tax collectors, *unjustified tax exemptions*, the *undervaluation of natural resources*, and the practice of *illegal resource exploitation*. As a result, Tanzania collects only about 15 percent of GDP in taxes. Even this relatively poor performance represents a big improvement on earlier years. Additional freedom for the ruling elite to indulge in plunder and patronage spending provides the incentive to invest public

resources in extracting more revenue from customs, businesses, workers and consumers.

Many of the abuses of state power that can be described as 'state predation' are legal but wasteful, though in most cases they are likely to be associated with illegal and corrupt behaviour. For example, procurement of luxury vehicles for senior officials is in part motivated by the prospect of earning rents from over-invoicing. The key issue is not whether activities are illegal or 'corrupt' but whether they can be justified in terms of policy and development priorities.

The manipulation of large-scale procurement, infrastructure investments and construction, and so on, may be thought of as rent sharing between state and private actors, based on 'collaborative regulation.' The formulation in Williams et al., in which private interests *capture* regulatory power, ignores the voluntary participation of state actors in collaborative rent-seeking as predators. When the funds to be turned into rents are public, the state actors involved have more leverage over the allocation of rents than when transactions involve privately generated rents. There is a feeling that trading and other interests in the Asian business community make much more out of collaborative rent-seeking than the state agents.

On the expenditure side, the efficiency of public goods creation is seriously undermined by weaknesses in the budgetary process, in particular allocation of spending between different ministries, sectors and levels. Ministries with political leverage, particularly defence, arguably receive disproportionate budgetary allocations. Central ministry establishments are heavily over-financed compared to the services they provide. Spending on items such as vehicles, travel, workshops and seminars, and sitting allowances reduces the funds available for basic salaries and services. Reallocations are common between votes and frequently favour non-priority at the expense of priority spending.

The available evidence suggests that procurement and contracting are sources of systemic looting and rent-seeking. Routine small-scale corruption among service providers may sometimes speed up services, but frequently deprives the poor of their service entitlements. Subsidies to loss-making parastatals and other bodies and payments to meet state-guaranteed loans constitute other major losses from the perspective of creating public goods.

Much foreign aid to supplement (under-collected) taxes has been dissipated in wasteful expenditure, while also fuelling patronage networks involving the state and the private sector. These and other inefficiencies in the performance of the state at central and local levels seriously compromise capacity to address market failures by producing public goods effectively, efficiently and equitably.

4. How independent is the bureaucracy in performing its functions?

The performance of the Tanzanian state in providing public goods is seriously undermined by systemic inefficiency and rent-seeking involving public and private actors.³⁰⁰ The bureaucracy enters into the rent-seeking

³⁰⁰ See Cooksey 2005 for an overview of the Mkapa years (1995-2005) and Policy Forum 2009 for a review of 2006-2007.

picture *in its own right* and as a client to the political principal, the executive.

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.³⁰¹ After a period of severe looting and rent-seeking, the management of the BoT has improved in recent years.

5. How coordinated and centralised is rent-seeking?

The broad powers of the president, senior ministers and some ruling party figures facilitate the predatory excesses described in this report. We investigated the degree to which different types of rent-seeking practices are coordinated and centralised. While much predation, rent-scraping, and procurement irregularities are uncoordinated and decentralised, we did find evidence of coordination and centralisation in relation to large-scale construction, procurement, and privatisation. Unfortunately, the coordination and centralisation functions were often performed inefficiently, increasing the transaction costs of rent-seeking and (in the case of power and water supply) producing very suboptimal outcomes.

We have not found any significant evidence of an overarching coordination mechanism within the polity that imposes a *strategic accumulation logic* on rent-seeking and predatory processes. On the contrary, we have cited numerous examples of uncoordinated and collectively dysfunctional rent-seeking.

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 prosecute 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.³⁰²

There is a strong suggestion that the president gave his approval to a number of important deals that helped promote his successful bid for the presidency. His inability to reign in his current rivals³⁰³ in spite of support from within his party and from the general public, suggests complicity at best and active involvement at worst.

³⁰¹ The Mwinyi and Mkapa presidencies exhibited these tendencies.

³⁰² In particular Andrew Chenge (radar) and Lowassa (Richmond).

³⁰³ One respondent (H 04/04/09) said: 'Rule number one is: get rid of the king-maker before he gets rid of you.'

6. How do underlying political factors influence rent-seeking practices?

The ideological and political effects of colonial and post-colonial race relations in Tanzania *strongly influence the nature and content of the investment and business environments*. The broad overlap between ownership of capital, economic class and racial origin (African, European, Asian, and Arab) has had political repercussions throughout the history of Tanzania, and the region more generally. Nationalist sentiments and politics are built around these overlapping structural inequalities. Members of the executive enjoy large discretionary powers to initiate and oversee large investment projects, and regulate natural resource exploitation, in the absence of effective formal checks and balances. The politics of patronage both promote rent-seeking and protect the public and private perpetrators against sanction and punishment.

We distinguish two types of political rent-seeking, one motivated by the (immediate or longer-term) imperative to finance a political party, the other to advance the political interests of individuals and groups within a party. Individual motivations cover a spectrum ranging from 'need' (petty corruption, rent-scraping) to 'greed' (rents used for conspicuous consumption) or 'accumulation' (productive investments of various kinds). In practice, much rent-seeking behaviour can be explained by various combinations of these motivations. Rents to finance a political party or an election are routinely diverted into individual political campaigns, and rents to advance individual or group ambitions are diverted into personal consumption or investment. For example, the draining of the BOT's EPA began as a strategy to finance CCM's 2005 election campaign, took on a factional dimension, and also provided opportunities for personal accumulation.

Other kinds of rent-seeking involving both private and public sectors become political once the deals reach a certain magnitude. We examine a range of rent-seeking deals from the point of view of public goods creation. Deals from USD 40 million and above, including military procurement, carry high opportunity costs (priority public goods foregone) as well as downstream running and maintenance costs. Respondents believe that the lion's share of the rents in such deals accrue to the middlemen, usually local Asian rent brokers. Given the history of mistrust between the Asian business community and the Tanzanian political class, the rent brokers accumulate most of their wealth abroad.

In sum, the practice of rent-seeking incurs tremendous costs in terms of basic public investment opportunities foregone. Rent-seeking and predation practices that reduce public investable surpluses by hundreds of millions of USDs per annum can contribute to 'primitive accumulation' only if we give a perverse interpretation to this term. On balance, productive investment and growth appear to take place *in spite of* rather than because of public finance management and state intervention in micro-economic policy implementation and regulation.

The rise of political competition between parties and (more recently) within ruling party factions has brought about new forms of opportunistic rent-seeking which threaten to increase the incidence and cost of political patronage and patronage spending.

Our respondents generally believed that the autonomy of the bureaucracy to initiate public policies and regulate the economy effectively is compromised by the discretionary powers exercised by the political elite and its agents. In addition, the competence of the bureaucracy to perform these functions effectively is undermined by bureaucratic rigidities and the routine practice of state predation, predation and collusive rent-seeking of all kinds. **Appendix 1** provides a brief historical sketch of the relations between the political centre and the state bureaucracy. It concludes that the two elements combined constitute a loosely bounded ruling elite but not a ruling class.

Tanzania's last three presidents are widely thought to have condoned corruption by their close supporters and two of them to have been involved in corruption on their own account. There is no reason to believe that this cycle will not repeat itself as the current regime exits. Coordination may be undermined by principal-agent dilemmas, for example, when the president initiates measures against his own former allies.

Last, the 'godfather' (crony capitalist) strategy of using state power to allocate rent-creating opportunities to productive enterprises that can in turn generate personal and collective rents downstream ('dividend harvesting') does not seem to be widely practiced in Tanzania, though this is a subject that deserves more empirical work.

9.0 The way forward

Understanding rent-seeking in Tanzania at the interface between the state and the economy is no easy matter. We feel that we have made some progress, but still have a long way to go.

We have corroborated the view, already widely documented, that the Tanzanian state is extremely weak in terms of turning revenues into priority social and economic public goods in an efficient and equitable manner. Large amounts of foreign aid are implicated in this weak performance.

This means that Tanzania creates *only a fraction* of the public goods that it could, thus undermining some of the basic preconditions for social and economic development. We maintain that political and institutional processes explain this inability to use the available 'social surplus' productively, but the opacity and complexity of these processes makes it difficult to draw confident conclusions. It is also dangerous for researchers to get too close to the truth of the matter.

Valuing, taxing and regulating the exploitation of natural resources are particularly problematic areas. Rather than intervening to correct market failures and solve coordination problems, state actors regularly use their influence to participate in natural resource plunder. This 'natural resource curse' is much less apparent in Tanzania than in other countries, but is likely to get steadily worse in the absence of countervailing forces.³⁰⁴

Public goods constitute our dependent variable. The nature and rate of economic growth depend on a number of factors outside the control of national governments, of course. Various historical factors from global to local levels determine the likelihood that a political regime may emerge at a particular moment that is capable of promoting primitive accumulation, or capitalist development, resulting in the emergence of a property-owning national bourgeoisie. If achieving high rates of sustained growth requires a degree of international competitiveness it appears that Tanzania, like most African countries, is likely to remain outside the capitalist mainstream, at least for the moment.³⁰⁵

If the undersupply of public goods is as dramatic as portrayed above, it is possible that without corrective action, the knock-on effects on investment and entrepreneurship could help rule out any question of sustainable accumulation and growth in the longer-term. The example of power policy discussed at length in this report demonstrates how developing and implementing a sector policy in the public interest is subverted by rent-seeking and predation. We looked for but could not identify clear examples of developmental 'dividend harvesting' (Moore and Schmitz's term), through

³⁰⁴ Bourgoignie and Therkildsen (2011) argue that political and economic liberalisation have led to the relative empowerment of local elites vis a vis the political centre through decentralisation and control of land allocation and selection of constituency candidates for the ruling party. This implies a decentralisation of rent-seeking.

³⁰⁵ See Collier (2007). We take this to be Collier's position, since he posits conditions for African development that are unlikely to be met in the short- to medium-term. It may take many years, for example, for African labour to be cheap, skilled and disciplined enough to attract investment in export manufacturing.

which key politicians protect viable companies or sectors from rent-scraping and extortion that could undermine profitability, in exchange for a regular rent.³⁰⁶

How could political and economic power be realistically reconfigured so that economic resources are used more effectively, without compromising political stability?³⁰⁷ Even more challenging is imagining how the ruling coalition could initiate an industrial strategy requiring the centralisation and coordination of key strategic rents.³⁰⁸

We could conceive of certain predatory practices of the incumbents of state power and rent-seeking by private interests as part of the process of primitive accumulation. Deals with the private sector and embezzling public money yield annual rents worth hundreds of millions of dollars, the equivalent of percentage points of GNI. Yet, as we have shown, these rent-seeking practices largely serve to increase the risks and costs and reduce the profitability of doing business. Faced with the poor infrastructure, low levels of human capital, and the other high costs of doing business that their rent-seeking and predation help perpetuate, many potential local capitalists choose the least risky options, for example, investing in land and up-market property development. The very rich own and rent property abroad, or keep their wealth unproductively in offshore accounts. A predatory elite that fails to invest at least some rents in valid economic ventures and prevents others from doing the same is preparing the way for its own downfall.³⁰⁹

We believe that the contemporary Tanzanian state is better characterised as predatory and *prebendal*, not simply clientelistic. According to Healey and Robinson:

‘... **prebendalism** ... describes a pattern of competition for public resources where the state is at the centre for economic advancement, and state offices are used for the benefit of patrons and clients.’³¹⁰

In a prebendal state, taxes and aid are ‘captured’ as virtual tribute by the ruling coalition in exchange for assuring law and order and going through the public rituals of governance. Prebendalism is likely to increase the

³⁰⁶ Most large foreign-owned companies complain about constant rent-scraping and extortion (see our gold study for examples). Political protection for local companies generally constitutes market restricting cronyism, though there may be exceptions.

³⁰⁷ Though we have not taken up the issue in our methodology section, we find it very difficult to conceptualise *how much* rent-seeking is required to maintain political stability. On the contrary, we see the rent-seeking practices that characterise modern Tanzania as likely to engender instability, ineluctably, as broad-based growth is frustrated, structural unemployment increases, and the elite-mass gap widens. Chabal and Daloz describe the creative rent-seeking practices that ‘buy’ political stability in the short-run, including foreign aid, but conclude ‘that there prevails in Africa a system of politics inimical to development as it is usually understood...’ (1999:162).

³⁰⁸ Rodrik 2004.

³⁰⁹ A study of how rentiers at all levels dispose of their rents would be quite interesting. The local prejudice is that ‘big men’ rentiers invest inordinately in their own domestic arrangements, and in conspicuous consumption.

³¹⁰ Healey and Robinson 1992:161. Emphasis in the original.

authoritarian basis of state power, where the threat or use of force increasingly substitutes for popular legitimacy. These issues require more research.

The effect of politicising public administration is not just to increase the embezzlement of public monies, but also to undermine performance in public goods creation and service delivery, as argued above. If the rentier impulse originates at the top, it is not surprising that it extends right down to the bottom. As a result, rent-seeking constitutes systemic, not aberrant, behaviour.

Proposed solutions to the rentier problems described above include democratisation (checks and balances), greater public access to information (transparency), civil society activism (accountability), and improved leadership ('political will'). We have criticised the 'good governance' discourse for its normative elements and failure to address underlying causality. But the governance discourse, shorn of its moralising and 'human frailty' reductionism, is surely correct in identifying 'corruption' as a force undermining public and private investment, economic growth and poverty reduction efforts. Trying to explain the patterns of rentierism that link the Tanzanian state and private actors takes the analysis beyond the normative into the realm of political economy. Gaining insights into the interests, ideologies and norms that incentivise, inform, and sanction rent-seeking behaviour highlights the weakness of proposed reformist solutions to the 'problem of corruption'.

A strong leader is required to centralise and coordinate rentierism. But a strong leader need not use his powers for benign purposes: he may or may not be concerned to use rents for long-term development rather than for distribution, dissipation and consumption. Thus the degree of centralisation and coordination tells us little about the practical effects of deploying these powers.

Last, we have focused on rents related to raising taxes and spending public money, including aid. But these account for only a small proportion of GNI, most of which is private. Despite the profound shortcomings in statecraft discussed in this report, Tanzania has nevertheless attracted unprecedented amounts of FDI during the last decade. This suggests that investors may be attracted by the lure of profits *despite* the poor performance of the state that we have described above. Our next task therefore is to look at the factors that encourage both FDI and local investment in key sectors.

Appendix 1: Constraints on state policymaking and regulatory capacity

To understand how the political and bureaucratic parts of the state apparatus relate to one another in rent-seeking we first need to examine the evolution of the post-colonial state, obviously a major task. A key issue is the link between bureaucratic autonomy and functional capacity. Clearly, a politically independent state apparatus contributes little to national development if it lacks sufficient functional capacity. Above we compared some of the ways in which the executive (top politicians) and private interests subvert bureaucratic processes (including regulation) through rent-seeking. But key members of the bureaucracy are also predatory *in their own right*, which seriously undermines capacity to develop and implement public policies.³¹¹

The example of power policy and procurement suggests that the involvement of rent-seeking politicians may undermine technically sound policy proposals for public goods provision. It also suggests that characteristics of the bureaucracy are relevant in determining the outcomes described above. The post-independence evolution of political-bureaucratic relations sheds some light on the issue. Space precludes a full treatment, and we will focus on the post-liberalisation period. The background to this period can be briefly summarised.

Of Tanzania's presidents, only Julius Nyerere had the formal political powers to attempt to centralise the relevant processes and institutions, including merging the bureaucracy and the army into the political process. At independence autonomy was not an option. The bureaucracy was rapidly integrated into the one-party state in a manner that made independent administration difficult or impossible. The Nyerere state rapidly expanded and politicised the civil service and the army, making the ruling party the supreme policy making state organ. Hyden contrasts colonial and post colonial concerns with bureaucratic efficiency:

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*

³¹¹ One of our well-placed interviewees described the on-going (2011) USD 155m National ID procurement stand-off as a conflict between politicians and bureaucrats over who captures the rents from the project. Rather than the politicians forcing the bureaucrats to subvert formal approval procedures, the bureaucrats were themselves heavily involved in the subversion process. A former PS emerged as an 'advisor' to the project middleman, this time an African rather than an Asian. The CEO of the consultancy company is also a senior government official, which is illegal. The ministerial tender board was in the process of rigging the tender in favour of a bogus joint venture between an inexperienced Tanzanian company, owned by the ominously named Mr Gotham, and a token South African partner. The consequent spat pitted the Minister of Home Affairs against the First Secretary. It is rumoured that the PS who replaced the 'advisor' was removed from his post because he refused to sign off on a multimillion dollar advance payment to the consultancy company (Interviewee A, 04/04/09, Wilfred Edwin 2008).

capacity ... has been small. Consequently, both organisational efficiency and effectiveness have been low.³¹²

Rapid Africanisation of the civil service helped push the integration process. At first cautious about Africanisation, Nyerere speeded up the pace by pressures from among his close associates, leading to a rapid replacement of Europeans and Asians in an expanding public service. As a rule, the trade-off between expansion of state employment and functions and the quality of service provision has generally been resolved in favour of quantity. In specific policy contexts the trade-off has been rarely recognised, or it has been recognised and rejected.³¹³

Commenting on the ujamaa period, Iddi Simba politely identified 'a strange myopia' that 'was created among some powerful party leaders, a phenomenon which *largely crippled the technical performance of the civil service.*' ... 'The Tanzanian bureaucracy has yet to rise from its functional slumber and to learn to play its role of providing effective civil service.'³¹⁴

Simba argues that politics has undermined the quality of the bureaucracy as a service deliverer. Thus capacity and politicisation are difficult to separate in practice. (We are not proposing that political pressure brought to bear on the bureaucracy is inevitably a 'bad thing'; we are concerned to identify the nature of the pressure and the consequences from the point of view of creating public goods, and market coordination).

There is an alternative to the 'politics encroaches on bureaucratic autonomy' narrative that sees the development of a ruling class encompassing *both* politics and bureaucracy from independence onwards. In this view, the bureaucracy became the core of the post-independence state. In the absence of strong urban or rural classes to vie for control of the state apparatus, the incumbents of state power became the ruling class by default, thus the 'bureaucratic bourgeoisie.' Shivji 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.'³¹⁵ Again, the inherent capacity of the bureaucracy is in question.

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.³¹⁶ The marketing boards and cooperative unions that were 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.

³¹² Hyden 1980:226, emphasis added.

³¹³ For example, the first drive for universal primary education after the Arusha Declaration. Nyerere rejected the World Bank's view that UPE would be 'too expensive'. The current rapid expansion of secondary and tertiary education is taking place with little concern for quality issues.

³¹⁴ Simba 1993:8. Emphasis added.

³¹⁵ Shivji 1976:96-7. Our point is not the one Shivji is making, but we agree with his conclusion.

³¹⁶ Some crops were grown on European-owned plantations.

Economic crises during the 1970s and 1980s undermined state capacity and work incentives and stimulated petty corruption.³¹⁷ In 1985, GDP per capita was 10 percent below the 1978 level. The minimum daily wage could buy ten kilos of maize in 1973 but only two kilos in 1985. As a result, most government employees could no longer live on their salaries, and service provision suffered.³¹⁸

Nyerere generally turned a blind eye to large-scale corruption as the price he had to pay for political loyalty, although it was not possible for officials to indulge in public shows of wealth. Attempts to control the burgeoning black economy towards the end of the 1970s led Nyerere to intervene when the over-zealous Prime Minister Edward Sokoine turned his attention from Asian traders towards top government officials.³¹⁹ The practice of keeping looted rents in offshore accounts and property investments began under Nyerere.

We argue that it is not very useful to focus on the divisions between the different constituent elements of the Tanzanian state. Over time, many individuals play multiple roles ('straddling') within the state apparatus: professors become bureaucrats and politicians; bureaucrats become politicians; retired bureaucrats and politicians become businessmen. Many Ministers have served their time as District and Regional Commissioners, or parastatal managers. An entire cadre of politician-bureaucrats was established by Nyerere combining security, military and bureaucratic roles. Many of these are still active as District and Regional Commissioners. This cadre continues to straddle the politico-bureaucratic divide. RCs and DCs have the power to intervene in any sector at any time. They represent a state that is inherently both a political and a bureaucratic entity.³²⁰

Economic liberalisation after 1985 raised the profile of the state bureaucracy. Aid became more intrusive as donors increased financial and technical support to strengthen the state's functional capacities. One could argue that the independence of the bureaucracy increased significantly under President Mwinyi (1985-1995), while, at the same time a rent-seeking political elite emerged that interfered in an ad hoc manner in government policy and decision-making, setting precedents that have evolved to date.³²¹ Under Mwinyi, new relationships developed between politicians and businessmen that facilitated rent-seeking and predation as defined above. The central role of the ruling party was weakened as official finances were withdrawn under

³¹⁷ It is not true that there was no official corruption before this time, but the crisis certainly stimulated corrupt behaviour (predation, rent-scraping).

³¹⁸ Cooksey and de Waal 2007:7 and references in footnote 15. The frequently heard criticism that social services spending fell as a result of IFI conditionalities after 1986 misses the point: in real terms, they had already been falling for years. The widespread criticism of donor pressures to 'roll back the state' in the 1980s failed to address the state capacity issue.

³¹⁹ Sir George Kahama is said to have plundered the Capital Development Fund that was supposed to finance the transfer of the nation's capital from Dar es Salaam to Dodoma. Nyerere is said to have prevented Sokoine from going after the Minister of Finance Cleopa Msuya and other senior officials. Conspiracy theorists maintain that Sokoine's death in a car accident in the middle of the anti-economic saboteurs campaign was not accidental.

³²⁰ Despite the advent of pluralism, the state continues to be authoritarian in its mode of dealing with the citizenry (subjects?).

³²¹ Mtei 2009.

political liberalisation after 1993,³²² and a market-oriented policy regime was increasingly introduced that again favoured the technocrats over the old-guard politicians.

Under liberalisation, linkages between politics, bureaucracy and the private sector deepened. Retired bureaucrats and politicians began to go into private business, act as joint venture partners for foreign investors, or sit on the boards of large companies. Finally, in the reverse direction, private businessmen began to enter politics.

Our respondents identified a strengthening of bureaucratic autonomy under President Mkapa's first term in office, as discussed in the main text. During the second term, very schematically, Mkapa's rule was characterised by a growing assertion of ministerial power in key sectors, which is close to contradicting the point made above about relative bureaucratic autonomy. Mentioning in particular the energy and minerals sector, one retired politician argued that 'the Minister became the Ministry under liberalisation.' The same source argued that parastatal autonomy had also increased under liberalisation, with the replacement of the (relatively powerful) SCOPO (Standing Committee on Parastatal Organisations), that oversaw parastatal performance, by the (under-resourced and -mandated) Treasury Registrar, in the Ministry of Finance.³²³

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. Senior government posts are routinely awarded on patronage grounds, for example, the former Minister of Finance, and current Director of Public Prosecutions and the Attorney General.

Our brief review suggests three main conclusions. First, the political and the bureaucratic components of state power since independence have always been closely intermixed, as they were under colonialism. Second, the rapid growth of the state was not accompanied by a growth in functional capacity. Bureaucratic sloth, waste and inefficiency continue to undermine service provision.³²⁴ Third, despite the above generalisation, the bureaucracy has enjoyed a varying degree of 'relative autonomy', both over time and between sectors and agencies. This is a field that could well do with some further investigation.

Writing in the late 1970s, Pratt believed that:

Many of the senior civil servants and senior political figures in Tanzania no longer set their personal aspirations at what might fairly be called international bourgeois levels. The egalitarian measures of

³²² Political parties now receive state subventions in proportion to their weight in parliament, and CCM receives the lion's share as a result.

³²³ Interviewee I, 09/04/09. Elsewhere we have described how during Mkapa's second term the state reasserted its dominance in the agricultural sector at both the policy level (reversal of liberalisation) and the concomitant re-empowerment of agents of the bureaucracy (new crop boards, some cooperatives). See Cooksey 2003.

³²⁴ The 1990s, when major public sector reforms came on stream, saw a 'decline in service delivery' caused by 'low levels of spending ... compounded by inequitable distribution and inefficient delivery.' (Naschold and Fozzard 2002:50-51). Until today, according to DIIS (2007:70) 'a performance culture is not yet institutionalised within the public sector.'

1967 and the continuing, radicalizing processes that followed nipped in the bud many bourgeois aspirations. Most members of the senior bureaucracy seem now not to define their position, either openly or covertly, as part of an international bourgeoisie. They know full well how poor is their country. They are, in very large proportion, first-generation civil servants, the sons and daughters of peasants. Their links with the country side are close and their association is intimate with their kinsmen and the members of their extended family, most of whom are much poorer than they are. Their tastes and aspirations now seem much more appropriate to Tanzania than was beginning to be the case in mid 1960s. The food they eat, the houses they live in, their holiday travelling, their forms of entertainment, their plans for retirement, all indicate that they have remained intimately part of the Tanzanian scene. As a result it seems less and less appropriate to regard them as the local representatives of an international bourgeoisie.³²⁵

Thirty years later, and nearly a quarter of a century after the demise of the ujamaa experiment, the above characterisation of Tanzania's emerging ruling class appears impossibly naïve and utopian, though it remains to be seen whether the emerging rulers are keen on becoming 'representatives of an international bourgeoisie.' In what sense are top politicians and administrators still 'intimately part of the Tanzanian scene?' What material and cultural characteristics do the ruling elite share with non-elite Tanzanians?

The rapid development of income inequalities, in particular during the last ten years, is the economic mirror image of the diverse processes of rent-seeking described in the main report. The resulting 'primitive accumulation' has created a politico-bureaucratic elite with incomes often exceeding those of their counterparts in wealthy countries. The private sector businesses that have benefited most from rent-seeking are (by definition) those with the closest links to the politico-bureaucratic elite. A political economy of the processes involved is long overdue.

³²⁵ Mwansasu and Pratt 1979:213

Appendix 2: Predation, rent-seeking and the Tanzanian military

The failed army mutiny of 1964, the war with Idi Amin in 1978-79 and the failed coup of 1982/83 are the three key landmarks in the history of the Tanzanian military after independence. According to Hopkins, the creation of the Tanzania People's Defence Force (TPDF) after the 1964 mutiny involved:

'...the emphasis on political education of the military at all levels, the establishment of party cells throughout the army, [and] the regularized contact between high-ranking officers and civil servants, the vice-president and the president...' ³²⁶

The defeat of Idi Amin's army in 1980 served to raise the profile and prestige of the Tanzanian army. According to Lupogo (2002), the war 'demonstrated the maturity of [the army's] leadership, its political readiness to defend the country and its ability to mobilise rapidly for war.' At the same time: 'The war with Uganda left the country with the potentially dangerous legacy of an oversized and increasingly confident army that became difficult to control. ... CCM felt an urgent need to further subordinate the military.... The failed coup attempt of 1982/83 was a timely warning signal in this respect.' ³²⁷

As a result of the 1981 *Mwongozo wa CCM* (party guidelines), the armed forces were allowed to elect their own representatives to the party's national conference and the chief of the defence forces became an *ex officio* member of the party's National Executive Committee (NEC). Military personnel were increasingly co-opted into political leadership positions. The following year, five NEC seats were set aside for the army. Cabinet posts were also open to army officers through election to parliament or direct presidential appointment. In 1982, more than 30 percent of all regional party secretaries were military personnel, as were 15 percent of district party secretaries and commissioners. By 1987, 15 percent of CCM's central committee were senior officers, and a quarter (24 percent) of regional party secretaries were former soldiers. Consequently, by 1992 the Tanzanian administration looked like a civilian-military coalition, with the military integrated into the government and the party hierarchy.

Between 1970 and 1990, the proportion of the national budget allocated to the military increased from 4 to 14 percent, while the budget share for education decreased from 14 to 4 percent. 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.' ³²⁸

³²⁶ Hopkins 1971:233. After the mutiny, the army was disbanded and fresh recruits were sought with the Tanganyika African National Union (TANU) youth wing as a base. According to Nyerere, the mutiny "enabled us to build an army almost from scratch. Many institutions we have inherited, but the army is something we built ourselves." Lupogo 2002, citing Smith 1971:166.

³²⁷ Lindemann and Putzel 2004. The following paragraphs summarise this source.

³²⁸ Zirker 1992, cited by Lindemann and Putzel.

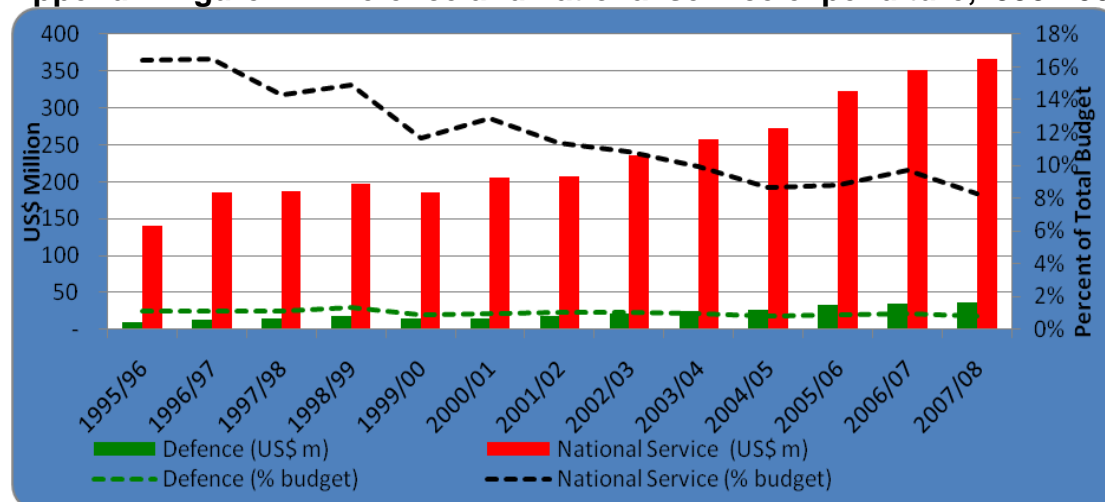
After the reintroduction of multi-party politics in the 1990s, it became illegal for military personnel to be formally involved in politics.³²⁹ ‘Many [former] top ranking military officers contested the 1995 elections under the umbrella of the CCM’ and by 2002 ‘45% of regional commissioners and 20% of ... district commissioners were still of military background.’ This has helped allay any fears that multiparty politics might ‘endanger Tanzania’s achievements in subordinating the army under civilian rule.’³³⁰

The Tanzanian military is said to be among the least accountable components of the Tanzanian state. According to Baregu (2009):

‘... parliamentary oversight over the military is ... virtually absent. ... Defence policy is the exclusive domain of the executive... Even where clear violations of financial regulations have occurred, there is no mechanism of calling the Minister of Defence or Chief of Defence forces to account.’³³¹

Military expenditure is one of the largest components of the Tanzanian budget (**Chart 2.1**). In 2007/08, the GOT spent USD 400 million on defence and national service, accounting for about 10 percent of total spending.³³² Though total spending on these two items rose steadily after 1995, it has also declined steadily as a proportion of total spending.³³³ TPDF personnel numbered over 50,000 in 1980, falling to 27,000 in 2008.³³⁴

Appendix Figure 2.1: Defence and national service expenditure, 1995-2007



Source: Anon.

³²⁹ Luanda (1994:259) suggests a modest rise in the parliamentary role of the military over time. The number of soldiers in parliament increased from one in 1970 to 8 in 1980 and 13 in 1985. In 1990, 31 soldiers took part in the elections, but only 11 were elected, or six percent of total MPs.

³³⁰ Lindemann and Putzel (2004:36). At an early point in his career the current President was a political commissar in the TPDF.

³³¹ Baregu 2009.

³³² 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).

³³³ Kahama (1995:84) cites defence spending of 7.1% of the total budget in 1971 rising to 13.2% in 1984, and falling back to 7% in 1991.

³³⁴ Wikipedia accessed on 05/08/10; Lindemann 2010:4.

Attempts to ‘downsize’ the military as part of public service reform during the Mkapa presidency were rebuffed by the military. On coming to power in 1995, President Mkapa appointed Joseph Rugumyamheto Permanent Secretary in charge of the Civil Service with a mandate to improve public service efficiency and, under donor pressure, to retrench civil servants and eliminate ‘ghost workers.’ In a press release issued by the Ministry of Defence in August 1996, Rugumyamheto ‘was quoted as telling donors that there would be a retrenchment of 15,000 soldiers this year.’³³⁵ **Box 2.1** describes the response of the Ministry of Defence.

Appendix Box 2.1: Ministry of Defence clarifies its modernisation plans

The press release goes on to say that ‘this Government is committed to the modernisation of the country’s armed forces’ but that ‘the government is still working on the scope, the strategy and elements of [the] modernisation programme’. Modernisation will ‘no doubt’ ... ‘include the procurement of modern logistics and combat technologies and equipment, improved training and development of our military personnel, and cost-effective and efficient recruitment and redeployment of personnel.’ ‘... there will necessarily be trade-offs between new technologies, skills development and the size of the armed forces.’ ‘... there are distinct possibilities that personnel numbers will be significantly reduced. ‘... the implementation of the programme ... will be completed over a number of years, and not in one year.’ ‘... instead of retrenchment ... a scheme for the **voluntary early retirement** of the soldiers will be introduced.’ ‘There will be no compulsory early retirement (retrenchment)...’ . ‘...even under the proposed voluntary early retirement scheme, there will be **ringfencing** of certain cadres...’ ‘... officers with certain skills and specified age brackets will not be allowed to volunteer for early retirement.’ ‘... the final say as to whether a soldier will retire early will remain with the commanders of the respective wings of the armed forces.’ ‘There should be no need for anyone to speculate on’ the government’s modernisation plan for the armed forces.

Source: Ministry of Defence 1996 (Emphasis in the original).

Box 2.1 suggests that the military enjoyed substantial autonomy from central government in deciding on its manning limits. Nevertheless, military personnel fell from 49,600 in 1994 to 27,000 in 2008.

After liberalisation, the army established a commercial wing (SUMA-JKT) and began a number of joint ventures. Consequently:

‘there is ... evidence that (the) armed forces are slowly becoming “a law unto itself” (sic). ... questions have been asked about the army’s involvement in gold mining, links between the Tanzanian military and Robert Mugabe’s regime in Zimbabwe, evidence of gun running in the Democratic Republic of Congo, not to mention the purchase of an extremely expensive military radar system.’³³⁶

For many years, military procurement has been a source of major rents created by budgetary plunder, including the misuse of aid. The ‘extremely expensive military radar system’ and other examples of military procurement

³³⁵ Ministry of Defence 1996.

³³⁶ Lindemann and Putzel (2004:36); Kelsall 2003.

excess are summarised in this report. Recently, SUMA-JKT has been involved in the distribution of tractors imported from India under a state-guaranteed loan of some USD 40 million. The company importing the tillers belongs to Jittu Patel, whose name is associated with rent-seeking/state predation networks involving top level political and government officials.³³⁷

Conclusions

Lindemann (2010) attempts to explain the relatively benign relations between the Tanzanian state and the military through the integration of the latter into an 'elite bargain'.

'This integration typically relies on three key strategies: (1) inclusive recruitment policies; (2) political control through the ruling party; and (3) the provision of generous access to state patronage. The combined outcome of such strategies will be a non-partisan army that is broadly reflective of the country's ethno-regional diversity and develops both ideological and material identification effects with the civilian government. As the army is given a stake in the survival of the existing 'elite bargain', the military mainstream will see no need for a coup and guarantee the persistence of civilian rule.'³³⁸

A professional army is in some ways comparable to a private electric power plant: large costs (standing charges) are incurred whether it is used or simply kept in 'standby mode'. Tanzania's standing army is not large, but the costs of keeping it on standby are—arguably—excessive for a country with such a low GNI. The military plays little or no developmental role. The top brass are involved in what appear to be 'semi-autonomous' predatory initiatives which supplement rents earned from the national budget. For example, the army's involvement in gold mining and trading (through Meremeta) took place without the involvement of the Ministry of Energy and Minerals, the mining sector's parent ministry. The military routinely hides its activities behind the screen of 'national security'. The lack of public discussion and accountability on these issues suggests that the activities of the military are even more remote from public oversight and control than state activities in general.

Keeping the military in line through budgets and off-budget mechanisms is an example of 'patronage spending', according to our typology of rent-seeking (**Figure 1**). Maintaining national integrity and stability without military take-overs is a difficult task for governments in fragile states throughout the world. Tanzania's relatively strong sense of national identity and absence of overt ethnic rivalry reduce the need to 'buy off' the military with excessive patronage spending. Ultimately, what constitutes a reasonable price to pay for the nation's military remains a matter of subjective judgement.

³³⁷ Guardian reporter, 14 March 2011.

³³⁸ Lindemann 2010:2.

Appendix 3: TANROADS, councils and regulating the outdoor advertising industry

TANROADS and municipal councils rent advertising space on trunk roads and in urban areas respectively. In May 2009, TANROADS announced that they were cancelling all existing advertising contracts countrywide and awarded the entire franchise to two companies, A1 Outdoor belonging to Zadoc Koola and Blue Sky, owned by Fayaz Bhojani. Blue Sky has no relevant track record and was just added to create a semblance of competition. Zadoc Koola, Chairman of ZEK International, is a partner of Edwin Sannda, also of ZEK, and a member of the ruling party NEC via the Youth Wing of the party (UVCCM). Both are said to be close to the CCM leadership.³³⁹

As a result of the tender, TANROADS gave the advertising companies 60 days to dismantle their advertising structures. There are three big, two medium and up to 50 very small players in the outdoor advertising industry. Eight companies³⁴⁰ petitioned the Fair Competition Commission (FCC) to contest the Tanroads tender decision on the grounds that it broke the restriction of competition rules. In October 2009, the FCC overruled TANROADS' explanations for why it had awarded an exclusive contract to A1 Outdoor and Blue Sky, and barred execution of the demolition order. But to date TANROADS have not relaunched the tender.

A substantial amount of the TShs 40 billion (USD 27 million) budgeted for the 2010 elections by CCM's National Executive Committee (NEC) in June 2010 is earmarked for outdoor advertising. It is tempting to conclude from the outdoor advertising story that TANROADS subverted the tendering process in order to award rent-capturing opportunities to a favoured company. However, the advertising tenders for CCM's campaign in the three-months (August-October) before the 2010 presidential and parliamentary elections were awarded to a number of advertising companies, not just A1 Outdoor. The explanation is probably that the task is too big to entrust to just one company.

Still, the rigged TANROADS tender may be linked to the close relationship between State House and the present TANROADS MD, discussed elsewhere in this report.

The poorly regulated advertising sector in Dar es Salaam reflects the rent-sharing practices of officials in the three municipal councils, Kinondoni in particular.³⁴¹ In both Nairobi and Kampala, ineffective regulation by local councils has destroyed the industry for the larger players, who do not want to be associated with the uncontrolled proliferation of outdoor advertising structures, including in residential areas. Officials in municipal councils earn

³³⁹ In August 2010, A1 Outdoor was linked to a USD 1.5 million contract awarded to Mediapix International Limited of Canada to print photographs of CCM's presidential and vice-presidential candidates for the October 2010 elections. Representative of Mediapix William Sarakikya also works for A1 Outdoor. MwanaHalisi claimed the contract was at least part financed by the government. CCM denied the accusation. See Kubena, Saed 2010. 'Serikali yafadhili kampeni CCM', *MwanaHalisi*, Dar es Salaam, 11 August. English summary at: <http://ukintanzania.fco.gov.uk/en>

³⁴⁰ INM Outdoor, EF Outdoor, Brand Active, Global Outdoor, Syscorp Media, Alliance Media, Platinum Media and Ashton Media. These companies claimed that the tender was non-transparent and contravened Fair Trade Commission 'laws' and TIC investment guarantees (Advertisement, Daily News, 14 September 2009).

³⁴¹ Interviews, January and July 2010.

substantial rents from advertising companies. A typical practice is to understate the size of a billboard so as to reduce the rental cost. Municipal councils such as Kinondoni continue to issue approvals despite objections. Where outdoor contractors are unable to get approvals from the councils (or TANROADS) they simply move onto private land where they can operate with impunity.³⁴²

Limiting competition for public advertising space in urban areas makes good sense from a public policy perspective if the alternative is beggar-my-neighbour competition between advertisers which drives out the more professional companies, as has apparently happened in Nairobi and Kampala, and leaves urban, including residential, areas littered with badly sited hoardings of all shapes and sizes.

Outdoor advertising provides an example of the failure of the central state and local authorities to adhere to land use planning and zoning principles, laws and by-laws. In Dar es Salaam, 'public lands are constantly under threat of seizure, by wealthy developers and space-hungry squatters alike.'³⁴³

³⁴² Simbeye 2009; Fair Competition Commission 2009; interviews.

³⁴³ Brennan and Burton 2007:66. Since economic liberalisation, land and beach grabbing, incursion on public spaces and locating private businesses in residential areas (garages, bars, restaurants, discos, retail shops) is testimony to the inability of the central and local governments to control urban development in the public interest in the face of systemic rent-seeking practices.

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