ECONOMIC DEVELOPMENT & INSTITUTIONS

TANZANIA INSTITUTIONAL DIAGNOSTIC

# CHAPTER 8: AN INSTITUTIONAL DIAGNOSTIC OF TANZANIA: SYNTHESIS

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This final chapter has two goals. First, it aims to synthesise what has been learned from the previous chapters, emphasising the institutional challenges that have been identified there. Second, it seeks to identify the main common factors behind those challenges, as well as the policies and reforms most able to weaken their effects. Indeed, it appears that most of the identified instances of institutional challenges in the Tanzanian economy result from a small number of basic institutional weaknesses, which logically form the core of our final diagnostic. The reflection on the ways to remedy them, while taking into account the political economy context, including the structure of political power, leads to a set of recommendations for reform that follow two key principles about the way to approach the reform of the legal and administrative apparatus in Tanzania. The first principle is to allow for more competition and market mechanisms both within the economy and in the way it is managed. The second principle emphasises the need for a continuous rigorous, independent and transparent evaluation of the functioning of the public sector at all administrative levels, of policy outcomes, and of the socioeconomic progress being achieved.

# 1 The identified institutional constraints on Tanzanian development

This first part of the chapter simply summarises the conclusions drawn from the seven preceding chapters. Organising them within an integrated and coherent framework will be undertaken in the second part of the chapter.

## 1.1 The main challenges of Tanzania's economic development

Tanzania's development since independence has been deeply affected by major institutional changes that took place during this period – from a market economy and import substitution industrialisation just before and after independence, to a socialist economy after the 1967 Arusha Declaration, to a market economy again after the economic crisis of the late 1970s and early 1980s that led to the Economic Survival Strategy (1981–82), a home-grown Adjustment Programme (1982–85), and the Structural Adjustment Programme driven by the International Monetary Fund and the World Bank after 1985. Such a major institutional oscillation is bound to have left some deep imprints on the way today's economy works.

If the severe slow-down that characterised the difficult shift from a socialist to a market economy during the 1980s and the first half of the 1990s has now given way to solid growth, several concerns can be expressed about its long-run sustainability.

First of all, there is uncertainty about what is and what could be the growth engine of Tanzania in the future. Such an engine must necessarily relate to the tradable sector. This is because domestic income-related final demand constraints are absent in foreign trade and also. Relying on non-tradable activities, on the contrary, requires a growing source of outside revenues. Yet agricultural output has grown less rapidly than GDP over the last 15 years, and manufacturing has been roughly on a par with GDP. It is therefore unlikely they played a leading role in the overall growth of the economy, especially in view of the relatively modest GDP share of manufacturing – i.e. 7%. Favourable terms of trade as well as foreign capital and aid flows were more important explanatory factors of the satisfactory growth performances observed since the turn of the millennium. They raised aggregate domestic demand, fostering production and investment in goods and services that could not be imported. This may not last. The emphasis put on industrialisation, including the agroindustry and therefore agriculture, by the present administration and its predecessors is thus most justified. So far, however, results have been limited and identifying whether institutional constraints are responsible for this lack of dynamism is of first importance.

Three other sources of concern came out of our review of Tanzania's development. The first one is the negative growth of productivity throughout the various sectors of the economy, except in agriculture, where GDP share grew despite a falling share of employment. This seems in contradiction to the rather high observed level of investment and suggests the latter may not be well allocated, with possibly a deficit in productive factors complementary to private investment, infrastructure, and power in particular. A second concern is the excessive dependence of the economy on foreign financing, including Official Development Assistance. This means that the high level of investment of the last decade or so may not be sustainable in the long run, unless domestic savings can progressively substitute for foreign fund inflows.

The final concern is about the slow reduction of poverty, despite relatively high aggregate growth per capita performances, indicating that growth has not been inclusive. This lack of inclusiveness may be due to the nature of growth or to essentially a lack of integration of agriculture and the informal, predominantly rural sector in the growth process, another key institutional characteristic of Tanzanian society. This bias is reinforced by the low quality of public services delivered to poor people. The low quality of education in particular reduces the future ability of the poor segment of the population to integrate within the modern economy.

## 1.2 Tanzania's governance indicators

There is an inflation of governance indicators that aim to summarise in a simple multi-dimensional scale the various dimensions of countries' governance. It is not clear whether such a complex system as the governance of a country can really be summarised through a few comparable indicators. The meaning of most available indicators in terms of symptoms or causes of institutional challenges is often very ambiguous. However, they convey information that is worth examining.

Two approaches have been used in the present study. First, use has been made of the six aggregate indicators of the Worldwide Governance Indicators (WGI) database. They are themselves based on a large number of sub-indicators, which were classified into six categories, and then a 'common factor' was statistically extracted from each of the categories. The second approach was developed for this study. It asks a statistical procedure to classify all individual indicators in the extremely rich Quality of Governance (QoG) database according to the proximity of their cross-country variations rather than imposing an arbitrary grouping. It then takes the combination of indicators that explain the largest part of the variance within each of these endogenous categories to characterise how a country performs within a category. This endogenous categorisation yields results slightly different from the WGI. Use was also made of the 'investment climate surveys' conducted by the World Bank with a sample of firm managers.

The main governance challenges according to WGI are 'control of corruption', 'government effectiveness', and ' regulatory quality', in that order. The procedure based on QoG data points first to 'administrative capacity' and 'competitiveness', which is similar to 'regulatory quality' in WGI. Within that approach, however, corruption is high in Tanzania but not worse than in neighbouring countries, except Rwanda, or in better performing developing economies like Bangladesh, Vietnam, or Cambodia, which were nevertheless at the same level of GDP per capita as Tanzania 25 years ago.

We draw from that statistical exercise that 'government effectiveness', or 'administrative capacity' to manage the economy seems a key weakness in Tanzania, even though at that stage what these generic titles cover and what is primarily responsible for that lack of effectiveness is not very precise.

Corruption is widespread, or even ubiquitous in the developing world, whether in sub-Saharan Africa, Asia, or Latin America. This does not necessarily hamper all aspects of development. Some aspects of corruption may even facilitate economic development, as when corruption permits the relaxing of administrative constraints that deviate the allocation of resources from their optimal use and would slow down development otherwise. Yet it is noteworthy that, more than in comparator countries, corruption is found to be particularly detrimental to the economy by Tanzanian business managers.

'Regulatory quality' or 'competitiveness' include the impact of taxes, business regulation, and the quality of public infrastructure and services on the ease of doing business in general. 'Doing business' and 'competitiveness index' released respectively by the World Bank and the World Economic Forum illustrate this third relative weakness of Tanzanian governance. In both indices, Tanzania ranks between the 70th and 80th percentile in the world, without any significant change over the last seven years.

## 1.3 An evaluation of Tanzanian institutions by decision makers

Two surveys were launched to ask decision makers in different positions in society what they felt were the most economically constraining institutional challenges in Tanzania. The first was a questionnaire survey administered to a sample of about 100 decision makers from the public and private sectors, at various hierarchical levels and in different areas of the country. The second survey consisted of open-ended interviews with top decision makers and politicians within different areas of expertise and from different horizons. This second group of respondents comprised 60 people, including two past presidents, the Chief Justice, and the Controller Auditor General, as well as top civil servants, business people, and academics.

For the most part, these surveys and in-depth interviews were conducted mostly in 2016 and early 2017. As this was the first year of the Magufuli administration, one may wonder whether respondents were referring to the previous or the new administration when they were interrogated. The formal survey asked the respondents to refer to the medium- to long-term past (described as the past five to 10 years) when answering the questions. This timeline was given in recognition that institutions take time to change and therefore it would be more informative to understand long-standing patterns than any perceived changes that may come with a new administration. To capture the perceived direction of change with respect to the past, respondents were later asked whether they thought things were changing with the new administration. The same principle applied informally to the open-ended interviews. The evaluation of Tanzanian institutions by decision makers thus essentially focused on the pre-Magufuli era.

The most frequently cited institutional challenges that came out of the questionnaire survey and the open-ended interviews were the political institutions, that is the way politics is done in Tanzania, the public administration, and the business environment.[1] More precisely, the following domains were singled out as particularly problematic:

- the land law, whose complexity and slow implementation entail social conflicts, numerous court cases, corruption, and frustration among both smallholders and investors;
- corruption in general, between government or administration and business, between the administration and people, and between government and citizen (patronage);
- the lack of transparency of state operations and the weakness of check-and-balance institutions;
- the poor regulation of business activity, referring to the operations of big businesses, or to the general investment climate;
- the poor regulation of utilities, especially electricity; and
- the inefficiency of civil service: low capacity, absenteeism, corruption, overlapping responsibilities, patronage in recruitment practices.

Of course, this list is a mixed bag in the sense that it includes institutions *per se* (e.g. the land law or the executive's checks and balances) but also the causes (e.g. lack of capacity in civil service), or the symptoms (e.g. absenteeism of civil servants, corruption), and the consequences of these weaknesses (e.g. land conflicts or investment climate). Yet the general picture these surveys consistently draw of economically relevant institutional challenges in Tanzania is interesting, and parallels the conclusions drawn from governance indicators.

Identifying the causes of institutional weaknesses and differentiating symptoms and consequences was undertaken in the second part of the study, by focusing on specific thematic areas thought to be of importance both for the functioning of the economy and for our understanding of the nature of institutional challenges.

## 1.4 Thematic areas

### 1.4.1 Business and politics

International experts and Tanzanian decision makers at various levels of decision making find the nature of the relationship between big business and the government or the ruling party, which some characterised as sheer corruption, one of the most serious institutional challenges of the country. Indeed, the rules that should define that relationship, which are part of business regulation in general, are not explicit, the reasons for particular decisions to

[1] Note that questions related to this particular area in the questionnaire differed substantially from questions in the 'doing business' survey of the World Bank or in the competitiveness index of the World Economic Forum.

be taken are hidden from the public, and their consequences not seriously evaluated. At the same time, it cannot be denied that big firms are responsible for the major part of economic growth. Is it the case that their attempt to control fragments of the political elite is essentially aimed at ensuring that they appropriate the major part of the rent originating in a vibrant modern economic sector? Are they extracting a rent despite being relatively inefficient? Or do they simply siphon away public resources through phony firms or projects with the complicity of top government people? These are crucial questions with clear implications for the issue of slow productivity growth and industrialisation diagnosed earlier.

In Tanzania as in most countries, big modern firms, or conglomerates, contribute a sizeable part of GDP growth and are the main employers in the modern private sector. Because of this, there are good reasons for governments to support them, presumably in a fully transparent way. But, because of both positive and negative externalities and/or market failures more frequent in developing economies, their activity should also be regulated, again in the most transparent way. Why isn't such a policy of support and regulation of large modern firms an explicit component of the development strategy of Tanzania? Why is the relationship between large firms and the state so opaque and so frequently subject to scandals of corruption uncovering anti-developmental policy decisions, whereas establishing clear behavioural rules within a well-thought policy framework would be in the interest of all? This absence of a transparent and effective industrial policy – in the broad sense of regulating, monitoring, and possibly supporting big as well as medium business – appears to be a major institutional challenge with major implications for Tanzania's development.

This key institutional issue has been analysed in depth in chapter 3 on 'Politics and Business in Tanzania' by Sam Wangwe and in Hazel Gray's comments on that chapter. Various factors explain the current state of play and the relative inefficiency of industrial policies and strategies. Three of them seem particularly important. In some cases, they point themselves to other structural weaknesses of the politico-economic apparatus.

First, regime changes in recent history may not have left very much time for market rules and industrial policy principles to settle down in the national community. The economy went from markets subject to colonial rule before independence, to more open markets just after independence, to limited and mostly hidden market operations during the socialist period, and back to markets with rules progressively being set but still incomplete or largely ineffective during the liberalisation period and in some cases until today.

Going back and forth across regimes also implies that there is no full political consensus in the Tanzanian political elite about what regime to favour, between full market capitalism or a mixed economy with substantial weight given to the state. This absence of clear consensual principles with respect to the relationship between the state and the market, or private firms, may be considered as an institutional failure *per se* as it introduces uncertainty among economic actors about the attitude of the state with respect to private firms. This ideological ambiguity may be a second reason why no clear strategy with respect to big business and the private sector in general is yet fully explicit.

A third reason has to do with the ethnicity of the owners and managers of big business. It turns out that a majority of large firm owners are Tanzanian Asians or Tanzanian Arabs. Several Asian businessmen were present in Tanzania just before or just after independence. Starting from trade businesses at the local or regional level, they invested in manufacturing behind the protection barriers erected, on their own advice, by the young independent state. Behind the scenes, or sometimes as managers of parastatals, they continued to have influence during the socialist era. After liberalisation, they progressively built economic empires, soon joined by Tanzanian Arabs. A majority of big business leaders thus belong to ethnic minorities that have tended to dominate economic life, outside agriculture, practically since independence, with less strength, of course, during the socialist era. It also matters greatly that this was done mostly through domestic and foreign trade. These ethnic groups are not fully integrated with the indigenous African population, which tends to see them as 'exploiters' (Fouéré, 2015), and considers them today as running a large part of the Tanzanian economy. Because of this, any policy that would openly favour business might meet popular opposition if the main beneficiaries are perceived to be Asian and Arab big business people. Successive governments may have refrained from developing this kind of policy, even though it was possibly beneficial for development, explicitly because of this often-untold ethnic division.

It is unclear why there are few indigenous Africans among top chief executive officers, especially in industry, even though things may be progressively changing. At the time the resentment against Asian business was at its highest, indigenous African entrepreneurs complained that an Asian monopoly prevented them raising funds from banks or hiring people with the necessary know-how to get into big business. Such a complaint is not necessarily justified. Yet, today, only two indigenous Africans are among the 15 top business leaders in Tanzania. Younger indigenous African businessmen have recently been in the news, though.[2]

Another reason for the lower weight of indigenous in comparison with non-indigenous Tanzanians among business leaders might be found in the clear comparative advantage of the former in political or public service careers than in business, although this could be compensated for by their much larger population size. On the other hand, it is true that Asian and Arab business leaders have sometimes moved openly into politics to reinforce business's position in general, rather than acting from behind the scenes. In any case, this ethnic division in Tanzania, which is found with comparable features in other African countries,[3] clearly is an important determinant of the functioning of economy and politics.

A fourth and last reason can be invoked to explain the difficulty of establishing clear rules for industrial and regulation policy. It is the fragmentation of political power within the dominant Chama Cha Mapinduzi (CCM) party as well as the existence of groups within the party with diverse economic interests in big business. Divergent interests and views, including ideological, across CCM factions themselves linked to diverse business interests make it impossible to get an agreement on policy decisions involving big business interests, or to prevent party members colluding with business, or even to expel them when caught in

[2] A 28-year-old Tanzanian was ranked among the top 30 young African entrepreneurs by Forbes. See www.thecitizen.co.tz/News/national/1840392-1834898-tytfabz/index.html

[3] The same issues with Asian business arose in other East African countries and with the Lebanese in West Africa. In the case of East Africa, Ranja suggests that there is some strong path dependence due to Asian business being dominant just before and after independence, when indigenous Africans were involved mostly in politics and agriculture. Because of family business background, it has been easier for Asians than indigenous Africans to launch new businesses (Ranja, 2003).

corruption scandals[4]. A centralised power within the ruling party would probably eliminate this obstacle, and this may indeed be the strategy followed by the current president.

If the lack of explicit and effective industrial and business regulation policies is to be considered as a key institutional weakness of the Tanzanian economy, caused by, and leading to, corruption, clientelism, and cronyism, three important questions must be considered.

First, if no explicit industrial policy favouring some specific sector through protection, infrastructure development, fiscal exonerations or subsidies seems possible or desirable, then why not adopt a 'neutral' policy that would favour business in general, i.e. the World Bank 'doing business' approach? Why wouldn't big business people themselves be asking for such an industrial policy, sometimes referred to as 'horizontal' industrial policy? After all, a better investment climate would dynamise investment, foster the development of small and medium enterprises, accelerate growth, and finally benefit big business people too. As long as such a policy would not change their own arrangements and the support they get from government people, they should not oppose such an improvement of the investment climate. The difficulty here is that it would be difficult to improve the business climate by fighting civil servants taking bribes for delivering a licence or a permit to new investors or operating firms, when bribes from big business are known to be cashed higher up in their hierarchy. The same would be true when deciding about public infrastructure investments, big firms managing to have them serve their own interest rather than that of the collective. Corruption is contagious. It cannot be stopped for some operations when it continues elsewhere. Without powerful control measures, big business's grip on parts of the political elite thus trickles down to a deleterious general business climate.

Second, isn't it the case that the Tanzanian economy does well, so that this business–politics collusion issue may not be a big problem after all? Maybe, but is it doing well in a sustainable way? The review of Tanzanian development in this volume pointed to the relative weakness of growth in tradable sectors, especially agriculture and manufacturing. Could it be that the big business–politics connection has some responsibility in it? Wangwe indeed suggests that imports are often given some advantage over domestic production through support to the 'traders'. Sugar and rice producers have complained that imports were making domestic production barely profitable. Is such an 'industrial policy' in the interest of the country – i.e. consumers and industrial transformers of these products – or in the private interest of traders? Transparency on the goal pursued with such a policy and on its consequences is lacking. Public statements are made about policies to be pursued or reforms to be undertaken, but they are generally weakly motivated and not, or poorly, evaluated *ex post*. This is what Wangwe calls 'transparency without accountability'. It fits well for some particular cases. Yet it must be admitted that transparency is far from present everywhere along the industrial policy spectrum.

[4] Edward Lowassa, prime minister, and several of his ministers had to resign after the Richmond scandal in 2008, a Private Power Provider that failed to deliver and kept charging onerous fees with the support of the government. Yet they were not expelled from the CCM party. Lowassa himself competed to be the party's presidential candidate in 2015, before moving to the opposition when another candidate was chosen.

### 1.4.2 State coordination: the issue of decentralisation

Development requires an efficient government sector able to manage public goods, monitor and regulate the private sector, collect taxes to finance these activities, and redistribute across social, geographic, or income groups. The way the government organises its activity is essential for its efficiency, i.e. minimising the cost of achieving its social goals or maximising social utility for a given cost. A key organisational issue in this respect is the allocation of decision power among the various decision and monitoring units of any government, from the centre (president or prime minister), to ministries, to local governments, and to various types of public agencies.

Two extreme models can be thought of. Full centralisation is the model where the information flows from all parts of the public sector to the centre and decisions are taken by the centre and communicated to lower-level units which implement them. The cost of this fully centralised model is that of the huge information flow to and from the centre. Inefficiency arises from the fact that information flows may be inaccurate, inadvertently or voluntarily, as when the lower-level units try to influence the centre's decisions in their own interest through altered information. At the other extreme, the centre 'delegates' a large part of the information gathering and part of the decision making to lower-level units but sets their objective function and their budget in agreement with national goals while regularly auditing their operations. *A priori*, such an organisation would seem less costly in terms of information flows, but its efficiency depends on the capacity of lower-level units to make the right decisions and to be fully aligned with the goals of the centre. The cost of monitoring them, to prevent erroneous decisions or rent-seeking behaviour for those units in direct contact with the public, may end up as high as that of collecting and processing centrally all the information.

It would have been too heavy to analyse the efficiency of the Tanzanian government apparatus by reviewing all its dimensions. Cases of responsibility overlaps, competition across units, and rent-seeking seem to be present in many areas and at various levels of the public sector's vertical structure. Instead, the approach to the issue of state coordination in this volume has focused on the relationship between two levels of government, the central and the local, on the way it has evolved over time and some practical aspects of it, namely the collection of local taxes.

Difficulties in the relationship between central and local government authorities have already been mentioned in the case of the land system. The dominant fact in the fascinating account that Servacius Likwelile and Paschal Assey give of that evolution is the constant vacillation of the government since independence about the decision power that should be granted to local government authorities, both in terms of local service delivery and tax collection, that is between decentralisation taken as 'de-concentration', with centrally appointed civil servants in charge of local affairs, or 'devolution' of decision power to local governments and their democratically elected decision-making entities. The central–local government relationship went from decentralisation, inherited from the colonial period, in the first decade after independence, to full centralisation during the early socialist period, back to weak decentralisation in 1972, and to an ambitious local government reform in 1998 that had to be progressively implemented over a rather long period. As at 2014, the end of that period, however, ‘neither a comprehensive local government law nor harmonised central and sector legislation were in place’[5]. This is presumably still the case today.

In the field of fiscal decentralisation, the oscillation was still more pronounced. The responsibility for the collection of the property tax changed three times in the last decade: decentralised before 2008, centralised, re-decentralised in 2014, and apparently centralised again in 2016.

Such back-and-forth movement would not be a concern if it simply corresponded to a trial-and-error process, the aim of which would be to find the most efficient arrangement. This does not seem the case, however, as the periodicity of changes would not permit rigorous evaluation of the various regimes. As well acknowledged in chapter 5 and in the comments by Jan Willem Gunning, capacity is clearly missing at the local level for the assessment, the monitoring, and the enforcement of taxation. For the time being, it is thus the case that tax collection should optimally be in the hands of the central government, while local governments would rely on conditional central government grants to finance local operations not centrally managed. On the other hand, local tax revenues account for a very minor part of the total budget of local governments. Together, these two arguments logically lead to the hypothesis that oscillating responsibilities reflect either some hidden rent-seeking competition between local or regional politicians, central government tax collectors, and possibly ruling party members, or the views of some external decision maker, e.g. donors, or those of a new leader.

As a matter of fact, Likwelile and Assey recognise that corruption was rampant both with the centralised and the decentralised tax collection arrangement. They also mention that the World Bank had apparently been pressing for decentralisation to be re-established in 2014, a decision that was cancelled in 2016, under the new presidency, thus showing a consistent, and probably justified, opposition of the central government to decentralising tax collection. Even in that case, however, the issue of corruption remains open.

Fiscal decentralisation is often justified by resorting to the argument that it is an incentive for the accountability of local governments with respect to their constituency. Gunning is right in stressing that, in fact, fiscal decentralisation is neither necessary nor sufficient for local government accountability. Sharing information about the actual grants received from the central government and the accompanying conditionality with local constituencies could be effective too, as well illustrated by the positive effect of advertising central government grants to local schools on the management of schools in Uganda (Reinikka and Svensson, 2005; 2011). Existing studies in Tanzania suggest, however, that not much of the publicising of local financial information reaches the public - see chapter 5 by Likwelile and Assey.[6] Other studies also show that there is an overlap or confusion of responsibilities between local government executives and centrally appointed civil servants working with them or monitoring them at higher district or regional level, but often applying the central

[5] See chapter 6.
[6] See also this interesting survey undertaken by Twaweza on public knowledge of local economic management, where 70% of the people are unaware of budget issues in their local government, despite the information being duly disseminated.

government's agenda (Hulst *et al.*, 2015; Venugopal and Yilmaz, 2010).[7] None of all this is really contributing to local accountability.

As a matter of fact, the preceding mostly anecdotal evidence shows that decentralisation is not very effective in Tanzania. This means that local preferences for local public goods and constraints in creating and managing them may not be satisfactorily taken into account in the overall public decision-making process, thus reducing the overall efficiency of the public sector.

Is the corresponding economic cost high and should decentralisation be made more effective in Tanzania? As noted by Gunning, this is an empirical question but there is unfortunately little evidence to answer it, in Tanzania or in developing countries in general.[8]

Yet the chapter by Likwelile and Assey, as well as Gunning's comments, raise an important question for our reflection. It concerns the issue of capacity, and consequently of capacity building. An obvious limit to an enhanced decentralisation strategy in Tanzania is the capacity of local executives to manage local public goods and budgetary issues as well as the relationship with their constituency and with the central government. This is very clear in the issue of tax collection but may probably apply to other dimensions of local governance, even though centrally appointed local administrators or monitoring agents may not always have more capacity themselves. Under these conditions, whether institutions function well or not depends very much on the capacity of their operators. In the present case, would a central government resist enhancing decentralisation because it is not in its interest or would raise political difficulties, or simply because local executives don't have the necessary management capacity? If decentralisation is essentially a good policy, with adequate local capacity, then it would be important to facilitate capacity building at the local level, a point stressed by Likwelile and Assey. This would probably be the most efficient first step towards a more ambitious decentralisation policy. Yet not much seems to have been done in that direction, and the institutional instability of the relationship between central and local governments over the recent past is certainly not making things easier.

In summary, it is difficult to say whether the limited decentralisation has been a handicap for Tanzanian development. That it is a desirable long-run goal is not debatable. Yet conditions and, most importantly, the local capacity for a strong effective decentralisation are presently absent in a substantial part of the country. There is also some heterogeneity in the preferences of policymakers in this respect. The real handicap, however, lies in the succession of contradictory policy regimes, which has prevented learning taking place over time. Of concern is also the fact that corruption seems to have been present under the various regimes. In addition, and despite it not being the subject of this thematic chapter, the low quality of educational services observed in most of the rural part of Tanzania[9] is not a sign that either de-concentration or decentralisation works well in delivering essential public goods.

[7] Note that, though they appeared five years apart, both articles describe the 'tension' between village council members and administrators, essentially due to a system of public administration that remains extremely centralistic.
[8] See Mansuri and Rao (2013) for a cautious synthesis of the literature.
[9] See Chapter 1.

### 1.4.3 The civil service

The smooth and transparent functioning of modern states relies on the quality of the civil service. It provides technical policy advice to the political decision makers, implements policy decisions, and delivers those public goods and services under their responsibility. Several constraints interfered with the satisfactory working of the civil service in Tanzania in the past and hampered its economic development. Some of them tend to be less severe today, but serious challenges remain.

In chapter 4, Rwekaza Mukandala lists four such weaknesses: capacity, motivation and conduct, politicisation – or political interference – and resources and tools. Capacity and resources clearly depend on the level of development and the availability of human capital and public funds. From an institutional point of view, motivation and political interference play the most important role because they ultimately define the rules according to which the civil service, the political apparatus – i.e. government, parties, parliament – and the private sector interact in the economic development process, and which possibly deviate from official rules.

Initially extremely limited but fast growing after independence, the Tanzanian civil service expanded still faster but, in a first stage, in an orderly way during the socialist era. Needs were enormous because of the expansion of services like health and education, the centrally controlled management of local communities, and the need to coordinate the multiple nationalised and newly created public companies. Collective motivation was great, and strict rules preventing high-level civil servants doing business or enjoying hidden material advantages were enforced. In those days, however, the role of the civil service was very much subordinate to the ruling party, which made all decisions at all levels of the economy. Unwise decisions, the multiplication of parastatals, the quasi-impossibility of coordinating them, and some external events led to the chaos and the severe crisis of the early 1980s, without the civil service itself being really responsible for it.

Before then, however, and still worse during the crisis, the functioning of the civil service had severely deteriorated. Not only had it been completely disorganised but initial rules of conduct were dismantled, partly to compensate for the effects of the crisis. High-level civil servants and parastatal executives obtained huge non-monetary compensation for declining real wages, whereas they were making deals with the private sector to further increase their income. A huge corruption had then settled in.

Things became worse at the time of the transition back to a market economy. The process of privatisation and the lack of a civil service able to efficiently manage this new economic system opened the door still more widely to all sorts of deals involving civil servants, politicians, and business people. A culture of corruption permeated the whole economy and the public sector in particular. At the same time, the civil service was decimated by the Structural Adjustment Programme and its focus on market mechanisms as a substitute for state intervention.

It took time before the situation came back to a more normal stance. At the turn of the millennium, when donors started to weaken their market bias, the civil service could at last fill its role as a policymaking facilitator and the manager of public goods and services. Yet corruption, political patronage and the pre-eminence of politics in policymaking were entrenched. This is still the situation today, even though the current president has shown more political will and energy than his predecessors to reduce corruption.

Mukandala gives many examples of the way corruption and the lack of motivation of civil servants are costly for the economy and the society. For instance, the cost of teacher absenteeism has been evaluated at 1% of GDP. Assuming that other civil servants display equivalent behaviour, showing up at work but not working the legal number of hours or shirking, the cost would rise to 2.5% of GDP. Add to this tax evasion, over-invoicing of contracts and other corrupt practices, and the cost to the economy becomes sizeable. Patronage is another issue. The size of the public sector increased by 50% between 2012 and 2015, with a net addition of 70,000 employees every year. Questions then arise: whether these employees fill real needs, for instance in the education sector; whether the newly recruited employees are friends or relatives of politicians – or civil servants; whether it is possible to expand at such a pace while maintaining the same level of productivity; and whether recruitment criteria had to be substantially lowered for these new employees to be appointed. Likewise, it turns out that civil servants are better paid – a 30 to 40% premium on average (see Table 7 in Leyaro *et al*., 2014) – than private sector workers, even controlling for educational level and age. Although the difference may be smaller for top positions, is this wage premium justified by efficiency arguments or is it a political gift to a pivotal part of the electorate?

The present state of affairs can certainly not be uniquely imputed to the socialist episode in Tanzania's history. Things might have been the same without it. Besides, Tanzania's level of corruption seems comparable to its neighbours – although the education and health sector indicators seem to work better in Kenya. As seen above, corruption indicators seem to be comparable in neighbouring countries as well as among better growth performers than Tanzania, even though Tanzanian firms seem to be more sensitive than in other countries to the negative economic consequence of corruption. Likewise, the WGI 'Government Effectiveness Indicator' for Tanzania turns out to be at the same level as its neighbours – except Rwanda on one side and Burundi on the other.

This is certainly not a reason for not doing anything to improve the quality of Tanzania's civil service. It is unfortunately not possible to give a precise estimate of how much income is being lost or diverted because of a weak civil service. Available evidence is too partial. Likewise, as emphasised in Jan Willem Gunning's comments, it is not possible to evaluate how much growth has been missed. Yet simple theory suggests that corruption is detrimental to growth in Tanzania. A case where it would not be is when it permits the release of a hard legal or *de facto* constraint on economic activity, a case that, in general, does not seem to fit the Tanzanian context. Also, other aspects of poor governance like absenteeism or an excessive number of civil servants are doubtlessly detrimental to the level of production, its rate of growth, and its inclusiveness – as some people are deprived of good quality public service whereas others have enough resources to use private providers. Whether the civil service in Tanzania is as responsible for slowing down growth as, say, the slow growth of power capacity or other infrastructure cannot be said. But the fact that there would be a gain in making it more efficient and transparent is not debatable.

It remains to be seen whether it can be done and how. As emphasised by Gunning and Mukandala, any reform has its own political economy context. In the present case, the countervailing forces to a reform would be civil servants themselves, the politicians who use the civil service for patronage or as a channel to cash bribes, and those private agents who benefit from bribing civil servants and politicians. All of them have power, including the civil servants themselves. Yet introducing more discipline in the areas where absenteeism and shirking are strong does not seem impossible. A lot of experiments have been run lately in various countries about the kind of carrot to offer and the kind of stick to use. Improving the quality of recruitment and avoiding the recent oscillation in the number of new hires will not meet very much opposition either. Medium and grand corruption really is the big issue. Corruption is difficult to eradicate when it is entrenched in a society. Power must be used, but political power faces countervailing economic power. We'll come back to this issue below.

### 1.4.4 Land rights and the land law in Tanzania: Institutional issues and challenges

Land has been the subject of intense debate and dispute in Tanzania considering that it is the main resource of a large population of poor farmers and cattle herders as well as an essential input for investment in rural and urban areas.

The chapter by Sist J. Mramba sets out to analyse the existing system of land occupancy rights and its effectiveness in managing multiple sources of conflicts, and proposes how the system could be reformed. It is shown that there is some continuity in matters of land tenure (such as government ownership of land) between colonial times and post-independence Tanganyika, and later the United Republic of Tanzania whereby some basic principles of the colonial era were kept after independence. An important modification that was made is in respect of the way the land could be alienated from customary users so as to protect small farmers. Indeed, the whole period after independence has been associated with a permanent debate about the space to be given to customary laws in handling interests of public and private large investors. The creation of the semi-collective *Ujamaa* villages in Nyerere's socialist era impacted on the alienation of customary land in the process of reorganising production. The liberalisation period in the mid-1980s reverted to the dual land system with the development of large-scale plantations and better protected customary land rights. Nevertheless, land conflicts persisted unabated.

The Land Act (1999) reiterates that all land in Tanzania shall continue to be public land and remain vested in the president as trustee for and on behalf of all the citizens of Tanzania. This is of course a key institutional principle. A second principle is the recognition of the customary law through a categorisation of land. For the purposes of management, land is categorised into 'general land', 'village land', and 'reserved land' directly managed by the state. Officially agreed users are given an extended lease, or Granted Right of Occupancy, governed by statutory law on general land. On village land, occupancy is governed by local customary law. The corresponding rights can be formalised by Certificates of Customary Rights of Occupancy (CCROs) where the land under the jurisdiction of the village has itself been certified.

While the Tanzanian Land Act (1999) was associated with much optimism in Africa (Alden-Wily, 2003), Klaus Deininger points out in his comments that in practice four elements illustrate the gaps in Tanzania's land registration system for smallholders and that these impose costs on the broader economy. The four elements are: low level of computerisation of land administration; lack of integration between spatial and textual records; high fees for formalising transfers; and limited number of new CCROs created annually. In this regard, Klaus Deininger proposes action on improving registry efficiency and integration, adjusting regulations for low-cost first-time registration, and completing CCRO issuance in urban areas.

Land for investment is a major challenge. Investors cannot obtain land that is village land unless it has first been transformed into general land, which presently represents only 2% of total land. While large-scale land investment by foreigners has continued to be welcomed, in practice acquisition of land for investment has been complex, especially where the land is village land, and consequently limited.

Although the Land Commissioner, acting on behalf of the president, has power to grant general land without rent, the use of this power is not common, and the process is long. Challenges of valuation have attracted frequent land conflicts. The initiative to acquire land may also come from the Tanzanian Investment Centre responding to the demand of investors. However, there are also less formal and less centralised procedures used in the acquisition of land, but these are not necessarily less complex.

Encouraging investments is one of the objectives of the present land management system. Another, possibly more important, is to protect indigenous smallholders from acquisition by a large-scale operator. However, transforming village land into general land to facilitate large-scale investments, in agriculture as well as in other activities, has been perceived as a threat to smallholder farmers rather than an opportunity to complement their activities with large-scale investors. A further disempowering mechanism has been exhibited in the manner in which the commons in communities under customary tenure are managed. The village communities have particularly been vulnerable, on the argument that commons are unowned, or idle, or simply that they belong to the state. On the agricultural side, the issue is clearly that of the trade-off between modern high-productivity large-scale production process and traditional low-productivity farming and herding. No clear answer has been given to this socially hypersensitive question.

Alternative models of empowerment have been used which engage more of the existing producers, such as contract farming and outgrower schemes. These do not displace smallholder farmers but there are no institutional mechanisms to provide them with some capacity over price fixing. As a result, farmers often perceive that they are underpaid for the crops they supply to the large factories. On the other hand, the institutional framework for using smallholders' land as equity for facilitating participation in large-scale investments is not functional. The dichotomy between traditional and modern agriculture and the tensions due to the absence of a well-functioning labour market are likely to continue.

Institutional mandates for granting land rights and ruling on disposition and dispute settlement do exist but these are overshadowed by a multiplicity of institutions, which overlap, have no effective coordination or collaboration, and often lack administrative capacity. In effect, capacity building at the various governance levels is needed. In practice, land management and administration has been faced with challenges of efficiency and effectiveness as well as shortage of staff and rent-seeking.

The question of the balance between centralisation and decentralisation arises in the case of land in the form of dualism in the land disposition system: centralisation of control and management of general land on the one hand and devolution of control to customary law at the village level. The oft-cited cases of overlap of responsibilities and the complexity of the relationship between the various central and local public entities in the land management system are a sign of struggles for power over resources and over rent-seeking between these levels of government. Some of the conflicts and difficulties in managing land issues have in part been attributed to this dualism, which affects the economic efficiency of the whole land sector.

In this regard, Klaus Deininger provides useful insights into the alternative of providing space for village governments to integrate the investment activities of large-scale investors with village-level land use plans. Deininger makes a case for complete issuance of Certificates of Village Land based on boundaries surveyed using modern low-cost technology, and proposes clarifying the content and status of village land use plans, as a basis for attracting potential investors with a profile that would most effectively contribute to local development. This option would provide villages with the incentives to systematically identify investment opportunities that are consistent with their own land use plans. This provides a strong case for empowerment of local governments in land management for investors.

The limited capacity to generate a clear record system, provide information on time, and process titles and other land uses on time has attracted rent-seeking. Corruption has continued to be a challenge in the land sector. Lack of participation and transparency have continued to raise concern in land issues. Weak land governance and property rights systems leading to opaque land deals have contributed to facilitating corruption and undercutting responsible actors seeking access to land for productive investment. The same is true of the land judiciary system, which does not have the capacity to deal rigorously with the numerous cases put to it. The ongoing awareness campaigns and computerisation through the Information Land Management Integrated System are expected to bring more transparency and minimise the opportunities of corruption. This remains to be seen.

### 1.4.5 The power sector: an example of *de facto* weak regulation

The power sector has long been singled out as a major obstacle to development in Tanzania despite abundant and diverse natural resources, sustained donor support in building technical capacity, and favourable macroeconomic conditions since the early 2000s. In addition to the technical complexities and steep financial imperatives of sector development, Tanzania has had to contend with institutional blockages and entrenched dysfunctional (informal) institutional dynamics and processes that have hampered growth. In their in-depth analysis of the institutional evolution of the Tanzanian power sector, Chapter 7, Catrina Godinho and Anton Eberhard consider the underlying political economy factors that have made it so difficult for Tanzania to move from an institutional equilibrium that does not bring about the desired sector outcomes (investment, system expansion, and improved technical performance) to one that does.

Notwithstanding attempted institutional restructuring and ambitious reform policies, the structure of the power sector continues to most resemble that of the traditional industry model[10] – a model that has largely been dysfunctional in Tanzania and across the region for decades. Tanzania Electric Supply Company (TANESCO), the state-owned electricity company, continues to operate as a vertically integrated utility with considerable monopoly power. The (difficult) introduction of private sector participation in generation and the establishment of an independent regulator, the Energy and Water Utilities Regulatory Authority (EWURA), have not changed the situation substantially. Electricity supply in Tanzania is persistently unstable, oftentimes inadequate, and insecure. Due to the high coping costs associated with drought periods and political pressure around tariff increases, the sector's financial standing has remained precarious. Tariffs remain below cost recovery, planning has not translated into timely initiation of procurement of new power generation capacity, procurement has mostly not been transparent or competitive, and TANESCO's technical and financial performance is poor.

The structural, institutional, and performance characteristics of Tanzania's power sector are indicative of a hybrid or dual market, where private and public investment coexist in a sector that continues to be state-dominated (Gratwick and Eberhard, 2008; Victor and Heller, 2007). According to Victor and Heller (2007: 30), this is 'a stable equilibrium outcome'. They go on to explain that, 'while not the most economically efficient outcome, the dual market arises and is held in place by strong political forces that favour a system in which parts of power generation and delivery are profitable even as other parts are plagued by nonpayment, inadequate investment, and economically inefficient operation'. Indeed, political interference in the sector and its institutions has been a constant feature in the Tanzanian case. For example, the president's obstruction of regulator-approved tariff increases in 2016, followed by the dismissal of a number of executives at TANESCO, and finally the removal of EWURA's Director General all constitute rather problematic interventions. These and similar decisions on the part of the executive seems to bely a strong short-run bias considering that, in the long run, suppressed tariffs and unstable governance reduces the capacity of TANESCO to invest in sector maintenance and expansion, discourages private investment in the sector, and increases the cost of doing business. While these decisions are often justified by protecting the (urban) poor, low electricity access rates and risk-inflated costs of supply do not benefit those who need modern energy services the most – nor do they benefit businesses in general, who frequently cite poor electricity services as a primary constraint, nor do they contribute to the reduction of poverty through economic growth. There have also been a number of high-level corruption scandals involving members of the executive, including a series of scandals relating to the independent power producer Independent Power Tanzania Ltd (IPTL) and the Richmond emergency power deal. In these instances, it is clear that institutional reform may have been particularly difficult in these circumstances because strong political forces benefit from the current status quo.

The problematic experience with corruption in both public and private deals underscores the vulnerability of sector governance to political interference in a country where the political economy system is prone to using publicly owned companies and their links to the private sector for rent-seeking and patronage, even where corporatisation efforts attempt to 'ring-

[10] A state-owned, vertically integrated (generation, transmission, and distribution) monopoly, regulated by the government (i.e. not an independent regulator) is considered to be the simplest form of the traditional industry model, which was the international standard from the early 20st century through to the 1980s (Eberhard and Godinho, 2017).

fence' such interests. However, much of the blame has been laid at the feet of the private sector, strengthening the ideological bias against private participation in the sector – especially against private energy providers that could function as least-cost suppliers to a publicly owned system operator. These outcomes reflect a lack of capacity in the government and/or political will in the executive to ensure transparent and accountable governance in the sector. Recent moves against the independent regulator, which had emerged as an 'island of excellence' in terms of capacity and technical expertise, suggest that this lack of capacity and/or political will is indeed the key factor.

While an improvement on previous policies, the Electricity Supply Industry Reform Strategy and Roadmap 2014–25 has not been suitably translated into robust legislation, leaving the door open to interpretation. There are too few accountability mechanisms built into existing legislation, specifically the 2008 Electricity Act, that could really bring key directives into force. This leaves the political executive with considerable power over policy implementation. Reforms have been resisted or at best implemented only partially, a situation that has contributed to checking (keeping low) levels of transparency and accountability. The status quo is maintained through these institutional rules, vertical appointment structures, archaic guidelines on sector information and lines of communication, and the frequent application of *de facto* power by political actors. Despite the innovative EWURA Consumer and Government Consultative Councils, stakeholder engagement has been suppressed, a factor that has undermined the smooth implementation of reform steps. Antonio Estache summarises well the state of play by stressing that the partial or biased implementation of past reforms, the repeated scandals about the attribution of private power deals, and their limited efficacy and ill-managed tariff policy have together made future reforms essentially 'non-credible'. Under these conditions, it will be difficult to attract private investors in order to expand the capacity of the sector to the extent needed by industrialisation and development.

Interestingly, Tanzania has emerged as a leader in the region when it comes to decentralised options – primarily due to EWURA's adroit regulation and lower levels of political interest or rent-seeking opportunities in smaller power projects. In addition, it has seen considerable improvement in urban and rural access rates in recent years. After a slow start, the Rural Energy Agency (REA) – established in 2005 – has begun functioning satisfactorily and rural electrification progress has increased considerably over the past five years, even though Estache suggests that it could move faster with support from the government and development partners. This is an interesting case and again highlights the benefits of effective regulation. However, if this is perceived as a threat to the monopoly power of TANESCO and the special relationship between the executive and the utility, this could become a challenge. Even as it stands, REA hands over much of the distribution infrastructure back to TANESCO after construction – which has placed further financial strain on the utility, but more power in the hands of those who control it. There have also been some allegations of corruption, as government funding has flowed to REA at unprecedented levels in recent years.

From a political economy perspective, Godinho and Eberhard argue that the very indicators of economic disequilibrium in the power sector may constitute a feature (and outcome) of a relatively stable institutional equilibrium that might be conceptualised to be a constituent part of a larger political economy equilibrium – understood as the relatively stable and mutually reinforcing structural relationships that exist between public organisations, private interests, economic ideas, and political power, and the dynamic interactions that maintain them. The argument made is that the current hybrid model in the power sector is relatively stable and provides an example of how such systems do survive – with both positive and negative developmental outcomes. The energy requirements of development will continue to rise rapidly as (or for) industrialisation takes (to take) root. Increased investment in the energy sector will prove determinative, yet institutional constraints remain immense and the public sector is not in a position to finance the state-led model that is championed politically. The question is, then, what sort of interventions or policy options might tip the balance of the outcomes in favour of development and institutional evolution? With the change of regime to the current Magufuli administration, there could be room to decrease the consequences of the current dysfunctional institutional equilibrium for sector development and work within the political economy system to fast-track its evolution and facilitate positive institutional development cycles – but only if the new administration moves toward greater transparency, accountability, and independence in sector institutions. The type of interference witnessed thus far does not seem to indicate that this is the direction being taken.

## 1.5 Conclusion of Part 1: five basic institutional weaknesses

In trying to classify the most often cited institutional weaknesses throughout the various chapters of this volume and the preceding synthetic summary, the following general headings come forward:

- ill-defined structure of public decision making;
- selective distrust of market mechanisms;
- under-performing civil service;
- rent-seeking and corruption; and
- patronage and weak business regulation.

These themes were not only dominant in the in-depth studies of particular aspects of the Tanzanian economy but, rather remarkably, in the more general approach to institutions and development adopted in the first chapters of this volume. They indeed fit well the economic diagnostic that pointed, *inter alia*, to the lack of dynamism of the tradable sectors, excluding natural resources: agriculture being handicapped by an inefficient and partly ineffective land right allocation, industrialisation being slowed down by a badly managed power sector, and a weak control of the business sector. The slow development of these sectors as well as the poor delivery of public services like education also explains the lack of inclusiveness of recent economic growth. The five institutional weaknesses also fit the conclusions obtained from the analysis of the international databases on governance indicators as well as our own survey of opinions among Tanzanian decision makers about the institutional constraints faced by the country. There, the dominant themes were corruption, government ineffectiveness, and regulatory quality (or the investment climate). The general picture obtained from these diverse approaches to the issue of institutions and development in Tanzania is thus rather consistent.

It is by choice that the preceding taxonomy has been limited to five items. Some of them could easily be broken down into autonomous sub-themes. For instance, the ill-defined structure of public decision making comprises the often-mentioned overlap of responsibilities across different units of the public administration. But it also includes a *centralisation bias* of decision making by which the central power may discretionarily intervene at all levels in the public sector, imposing decisions or changing the decisions taken at a lower administrative level. This may be considered as a special case of overlap of responsibilities with absolute priority given to central power's objectives and rationale. In situations of asymmetric information and objectives between the executive and the decentralised administrative unit, this sometimes leads to economically inefficient decisions.

Another sub-theme under the 'ill-defined structure of public decision making' heading is the gap between the passing of laws and reforms, or the recommendations emanating from publicly appointed expert commissions and their entry into force. A related issue is the succession of reforms in the same area. Examples of such situations were seen in relation to the management of the power sector, the reform of the civil service or the decentralisation law, the multiple reports on the dysfunction of the land laws, and the decentralisation law with the particular situation in the latter case of a law that had not been fully brought to force. These occasional *gaps in the implementation of the law* are also to be related to the 'centralisation' bias, as they clearly emanate from the will of the executive, delaying the application of democratically grounded decisions.

It should be clear from this example that the identified institutional weaknesses in the list above are 'generic' in the sense that they may include deficiencies of different nature. They will be analysed in more detail below. Before doing so, however, it must be emphasised that, although rather ubiquitous in the functioning of the Tanzanian economy, the five weaknesses above are only the 'symptoms' or the 'consequences' of institutions that are working in a way that is not as favourable to long-run inclusive development as it could be. As such, they do not say much about the underlying causes of this unsatisfactory functioning of institutions, even though these causes have been mentioned in several occasions throughout the preceding chapters of this volume. It is now time to regroup them into a consistent framework that should help us to understand the origins of institutional challenges for the development of Tanzania and how to address them.

# 2 The institutional diagnostic

A huge literature has analysed the relationship between development and institutions on a cross-country basis, relating GDP growth and governance indicators of the type analysed earlier in this volume. Doing so, it would in theory be possible to rank the institutional weaknesses corresponding to these indicators by the damage they inflict on an economy. This would depend on the intensity of weaknesses and how harmful they are in general on economic growth. Such a ranking would highlight the institutional weaknesses that are the most important to remedy.

There are two reasons why such an approach would not constitute a 'diagnostic'. On the one hand, even though there might be some regularities across countries, they might not apply to a specific country. In addition, given our present knowledge of economic mechanisms, it must be admitted that we are absolutely unable to give an estimate, even a rough one, of the economic cost of institutional weaknesses like corruption or administrative ineffectiveness in Tanzania or in any other country. On the other hand, this approach in terms of symptoms does not reveal the measures, policies, or reforms that could possibly remedy the identified institutional weaknesses. Is rent-seeking by land bureaucrats in Tanzania due to too lax a bureaucratic control or to the rent that can be extracted by bureaucrats from villagers or investors uninformed of the complexity of the law?

A diagnostic must go beyond the symptoms to uncover the causes behind them and envisage possible remedies. In the preceding chapters, various causes have been mentioned that could explain observed institutional weaknesses. We will list them as a first stage, before analysing how they map onto the institutional weaknesses identified in the preceding chapters, and we will then draw from this diagnostic some principles that could guide remedial action.

## 2.1 Basic institutional weaknesses, proximate causes, and deep factors: a conceptual framework

The figure below tries to relate the basic institutional weaknesses identified in this study as practically ubiquitous in all aspects of the functioning of the economy with general economic consequences on the one hand and proximate causes on the other. These proximate causes, which are amenable to changes through policies and reforms, have to be related themselves to 'deep factors', which may be responsible precisely for whether those policies and reforms could be undertaken or not.

In examining Figure 1, it is quite important to realise that there is no one-to-one relationship between the elements of the various columns. One institutional weakness does not have a unique general consequence and has more than a unique proximate cause. The relationship between the four columns is essentially multivariate. The important point is essentially the chain of causality. The whole set of institutional weaknesses is the consequence of the whole set of 'proximate causes', which depend themselves on the whole set of 'deep factors'. At the other side of the chain, the set of institutional weaknesses affects how the economy works. Of course, looking at the whole chain, it can be said that the 'deep factors' are the ultimate determinant of economic performance. This would be correct, but not necessarily interesting. The important element in the whole chain is the proximate causes because they are amenable to changes through policies, whereas this is much less the case for deep factors, which are largely exogenous with respect to the policy sphere. If the structure of political power prevents a reform that will help resolve some institutional weakness, the only thing the analyst can do is to identify the winners and losers of the reform, give a measure of their gains and losses, and put politicians in front of their responsibility.

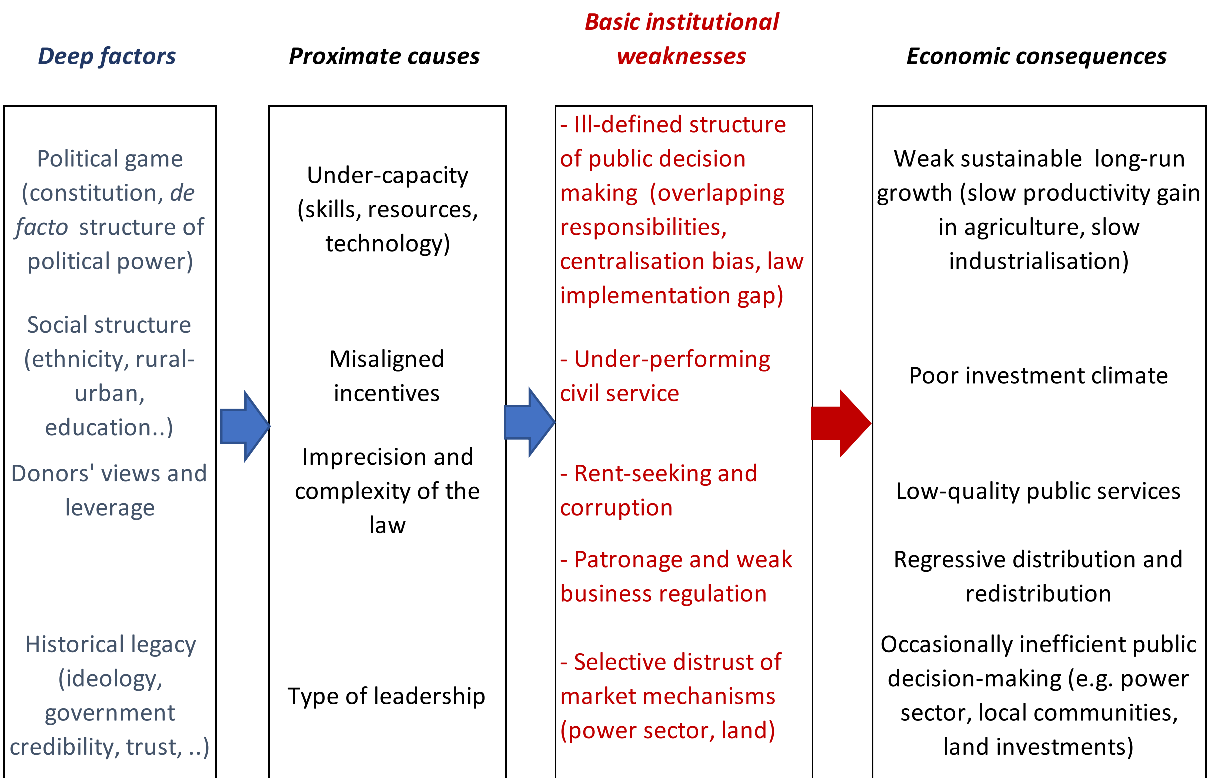
The relationships described by the figure are complex and need some explanation. The right-hand side is fairly clear. Indeed, it has been seen throughout this volume that the identified institutional weaknesses played a determinant role in affecting economic policies in Tanzania and ultimately its long-run development path. Only some general implications of these weaknesses are mentioned in the figure, but more detailed consequences could have been listed picking up examples in the previous chapters. For instance, the under-performing civil service is responsible for poor public service delivery such as in education, but also for a poor investment climate through rent-seeking on firms, whereas the patronage behaviour of the government was seen in some cases to distort the structure of economic activity, for instance through custom duties.

The left-hand columns of Figure 1 need more explanation. On the side of the causes of institutional weaknesses comes first the column of proximate causes. The list that appears in the column is directly derived from the theory of institutions. Considering institutions as a set of rules imposing tasks or behavioural constraints on the various economic actors, what could be the reasons why they would not follow the rules? The first possibility is that they do not have the skills or knowledge to perform the task they have been allocated or to manage the constraints they are subject to. In the same vein, they may not have the equipment or resources to perform their task or deal with the constraints. In short, laws, administrative rules, and tasks may not be fully adapted to the level of development of a country. This lack of administrative capacity has been pointed to several times in the preceding chapters, in particular in connection with the management of land rights and the civil service in general.

A second proximate cause of the identified institutional weaknesses is the misalignment of incentives for economic and civil actors to fulfil the task asked of them and/or comply with the various institutional rules they are subject to. Incentives may be of the carrot or the stick type, rewarding those who behave well in the first case and punishing those who do not in the second case. The main point here is that rewarding and punishing require that the evaluation of behaviour be properly conducted, with the appropriate skill and economic resources. It also requires that evaluators be themselves subject to evaluation to prevent transgressors and evaluators colluding.

Transgressing rules may also be unavoidable when rules are ill-adapted, inconsistent, or too complex. Several identified institutional weaknesses in Tanzania may thus be due to ambiguities, imprecisions, or too much complexity of the law and administrative rules. This is a third proximate cause, which should not be overlooked. We shall return to that in more detail below, but this issue is highly relevant in the case of the Land Act, despite the heavy reflection that took place on the way to implementing it.

**Figure 1: Main institutional weaknesses, economic consequences, proximate causes, and deep factors**




A proximate cause of institutional weaknesses may also come from the type of leadership, or more precisely the strength of the supervision it exerts on the public administration. For instance, the underperformance of the civil service may be the result of lax supervision. However, authoritarian leadership is not necessarily a good thing if authority is used inappropriately, as may be the case with the centralisation bias mentioned earlier

These proximate causes are very general and, as mentioned earlier, they ensue directly from the very definition of institutions as a set of behavioural rules or constraints applying to all economic and civil actors. In short, these rules may not be obeyed because actors do not have the capacity or the incentives to apply them, because they are ambiguous, complex, and possibly inconsistent, or because the leadership is relatively lax. Although general, it remains to be seen how they apply and how they combine in the case of Tanzania to produce the identified institutional weaknesses, and which policy or reform could remedy them. Before doing so, however, a word must be said of the 'deep factors' column in Figure 1.

- *Deep factors and the political economy of corrective measures*

Deep factors have to do with the feasibility of policies that could remedy the proximate causes of institutional weaknesses. As an example, consider the case of teacher absenteeism. A possible remedy could involve a closer monitoring of teachers' presence in class and punishment if caught being absent. For this to be possible, however, more resources should be devoted to monitoring schools and, with a constant education budget, less would be allocated to other expenses, e.g. fewer schools being built or fewer teachers being recruited. Such a reform would most certainly be resisted by the teacher union, officially for the motive that the latter measures would harm the quality of education – thus voluntarily ignoring the fact that better monitoring does the opposite – but, practically, because of the drop in teachers' out-of-school earnings. Some agreement would have to be found with the teachers, which most likely would include a wage increase. This is where deep factors come in. The probability that such a reform could be adopted would depend on the size of that compensation and, ultimately, on the political power of the union. A weak union could not resist the government's decision and a tougher monitoring of teachers' presence in class would be enforced. If such a decision is not taken, therefore, it must be because of the implicit or explicit political power of the union that, for one reason or another, the government cannot or does not want to confront. This is the meaning of the 'political game' deep factor in the figure above. In other words, proximate causes for institutional weaknesses may exist because deep factors prevent the remedying measures from being taken.

More generally, the structure of political power is often such that a reform that could strengthen the institutional framework and economic efficiency is not undertaken because it would hurt a group of interests strong enough to block it either by direct pressure on the executive or through the political game. Of course, the constitution affects the way this political game is being played as it ultimately determines the effective power enjoyed by the executive or the checks and balances imposed upon it.

The social structure of the society may also be an obstacle to institutional reforms. For instance, the demographic importance of peasants in the whole population might block reforms that would affect their autonomy because this would substantially reduce the electoral support of the party in power. Such factors combine with the political game to make some reforms possible or impossible. In the case of Tanzania, it has apparently not been powerful enough to prevent the recentralisation of some local responsibilities.

The historical legacy may also create a context that affects the capacity and the effectiveness of institutional reforms. The role of ideology and the attachment to the socialist past that leads to some distrust of market mechanisms and the private sector in some areas is a clear example of such legacy. The lack of trust that citizens may have in the political personnel and the public administration in effectively implementing a reform may also be an important factor for facilitating or, on the contrary, blocking it or making it inoperative. There is indeed an issue of credibility of governments. Reforms that have repeatedly been promised but unsuccessfully implemented become non-credible and are therefore unable to change the behaviour of people and firms. Something of this type may have happened in Tanzania with the fight against corruption. Why would economic agents comply if they learned by experience that the fight would quickly lose force? Things may be changing right now with the present administration, but it is still too early to know whether the society is really out of the bad, i.e. corrupt, equilibrium.

Donors are also mentioned among the deep factors, essentially because their contribution to the public budget in Tanzania is sizeable and they can weigh on the governance of the country. They showed it in several occasions after major corruption scandals. They may also try to impose their own views on institutional reforms, as was seen in the case of decentralisation, and of course at the time of the shift back to the market economy in the 1980s.

Deep factors logically appear as the ultimate causes of basic institutional weaknesses. Because they are mostly exogenous, at least in the medium run, focusing exclusively on them would be of little help for an institutional diagnostic. In the extreme case, one could explain any institutional weakness in a country by the opposition to the measures able to remedy them just being too strong. The structure of political power and its tight links with economic power would explain everything.

This cannot be denied but does not lessen the importance of considering deep factors rather than limiting the analysis to the proximate causes of institutional weaknesses. The structure of political power in a country may change and reforms that were not possible at one point in time may become possible at another. In the case of Tanzania, for instance, some observers believe the present administration may be in the process of modifying the structure of political power in the dominant party by controlling more effectively its various factions and their sources of funds, unlike what had been observed before.[11] This may be enough to facilitate some reforms that could not be passed by previous administrations.

What truly matters for a diagnostic of the way institutions work in a country is not to elaborate or speculate on how the structure of political power may evolve and whether a specific reform will be adopted or not, but to expose as clearly and as precisely as possible the gains and losses of all actors involved in the reform. In other words, what matters is the *political economy context* of reforms aiming to correct institutional weaknesses.

Taking into account 'deep factors' in the analysis of institutional weaknesses is somewhat equivalent to analysing the political economy of the measures most able to address the proximate causes of these weaknesses. This is what we now intend to do, to the extent this is possible, while considering the five basic institutional weaknesses in turn.

## 2.2 Analysing proximate causes and deep factors of Tanzania's institutional weaknesses

We now look at the various institutional weaknesses, link them to what is most likely the nature of their proximate causes, and then elaborate on possible reforms and the interests at stake behind them.

### 2.2.1 Ill-defined structure of public decision making

In any economy, the structure of public decision making is complex. Efficiency requires that, for most operations, information gathering, analysis, decision, and implementation occur in a precise place of the functional structure of the public sector. In the case of Tanzania, the thematic studies have shown that the decision-making system is set in such a way that it is

[11] On the 'factionalisation' of the dominant party CCM in the previous administrations, see Cooksey (2013). On the 'change of regime' pushed by Magufuli within CCM, see Andreoni (2017: 41) who, following Khan's (2010) political settlement taxonomy, sees the Tanzanian regime as having moved from 'Competitive clientelism' to '(vulnerable) Authoritarian coalition', possibly en route towards a 'Potential Development Coalition'.

not always clear who makes the decisions and that the number of procedures needed to reach a decision may be burdensome. Land transactions give a good example of this. Investors have to deal in practice with many different actors before a final decision is made, from village councillors to district commissioners, to bureaucrats in the Land Commissioner's office in the Ministry of Agriculture, not to mention several technical services. Note, moreover, that this heavy procedure that applies to the industrial use of land in the periphery of urban centres as well as to large-scale agricultural projects is likely to disincentivise investors, as documented in chapter 6.

There are apparently many examples of lack of coordination between administrative units in charge of closely related operations. Those mentioned by the decision makers interviewed for this study include, for instance, the apparent overlap between the National Land Use Planning Commission and the Director of Urban and Rural Planning in the Ministry of Agriculture, or the absence of a clear line of communication between the Tanzania Revenue Authority, a public agency responsible for tax collection, and the Ministry of Finance, responsible for the tax policy. Decentralisation raises the same kind of coordination challenge, with some confusion of mandates between local government executives and central government appointed officers advising on or controlling local decisions, and with an intricate set of relationships between local government authorities, the prime minister's office, the Minister of Finance and various sectoral ministers. More fundamentally, the succession of reforms in the relationship between local governments and the various arms of the central authority introduced ambiguity in the structure of the decision making at the local level, something that is detrimental to efficiency in the allocation and use of resources. That a decentralisation reform approved by parliament in 1996, which gives more power to local governments, and was supposed to be entering into full force by 2008, is not yet fully implemented is symptomatic of the ambiguity in the structure of public decision making. The sudden decision by the executive to recentralise the management of local taxes two years ago is also an example of the inherent difficulty of coordinating various levels of government and a centralisation bias.

The fact that the voted 'decentralisation by devolution' law is still partly inoperative raises the same issue while showing the effective power of the executive. This gap between the passing of laws and effectively implementing them, or the ineffectiveness of government-commissioned expert reports on the land laws, also reveals some governing dysfunctions and the powerlessness of part of the society in obtaining effective reforms from the government. As far as land rights are concerned, for instance, a batch of reports and programmes were produced: two SPILLs (Strategic Plan for the Implementation of the Land Laws), the MKURABITA (Property and Business Formalisation Programme), the land leg of the Big Results Now programme, the Land Tenure Support Programme and the current Land Policy Review. All of them were supposed to help implement the land laws passed in 1999 or to partly reform them. Overall, however, progress was limited and there are still serious difficulties in implementing the law. Much the same could be said about the power sector, in terms of the five-year delay between the EWURA Act and the installation of that agency, or the loose implementation of the 2008 Electricity Act with respect to the restructuring of the sector and its opening to competition.

Another example of the lack of coordination and centralisation bias can be found in the power sector. After decades of delay, a clear decision-making structure has been put into place with well-defined functions for the state-owned company TANESCO and the regulatory authority EWURA, whose technical competence is widely praised. Yet the central authority can veto decisions taken within that structure, as was the case recently when a tariff rise was cancelled by central power and the managers of the two entities were simply demoted, their appointment being by law under the sole competence of the president. The argument put forward was that such a rise would have increased poverty. Whatever the argument for or against the rise, such an event suggests either that the regulatory authority ignored some key social welfare aspects of its decision, which means something is wrong in the composition of the group of experts making tariff recommendations, or that it is indeed the expression of a very centralised power possibly acting under political motives. The same can be said about procurement decisions in the power sector. The multiple past corruption affairs linked to the choice of private power providers and involving top government members are clear evidence that, even though well-organised on paper, the decision structure can be short-cut at a high level of the state.

The proximate causes for these institutional failures differ according to the issue being considered. In the cases of both land right management and decentralisation, there is little doubt that the complexity of land laws and the ambiguity of the laws that rule the relationship between local government authorities and the central state play an important role. Those laws and rules must be made simpler and more consistent. It is also clear that the lack of adequate skills at the local level, among local government executives as well as centrally appointed local staff, makes it difficult sometimes to apply complex rules in a very specific context.

As a matter of fact, the centralisation bias noted in the management of land issues and local economies may itself be thought of as a remedy to this capacity problem. In the case of local tax collection, for instance, the assignment of that task to the central revenue collection unit was justified by such a lack of local capacity. The motivation may also come under the 'political game' heading in the deep factors, however, as it has indeed been suggested that the repeated changes in task allocation between local and central governments reflected a struggle between local elites and the dominant central party in capturing local rents.

The involvement of the state in major decisions concerning the power sector may also be analysed both in terms of a structure of decision making that gives too much *de facto* power to the executive and in terms of deep factors, the decision to short-circuit the power company and the regulatory authority being mostly political. On the other hand, even if it had been justified, for instance because of inappropriate timing of the tariff rise, the demotion of the directors of the two entities is evidence of a non-functioning institution. Another problem is that the institutional setting did not generate a well-informed public debate about electricity tariffs. This issue of public information will be taken up in more depth below.

Addressing the challenges of the complexity of land laws will be undertaken in the next section. For the issue of decentralisation, the fact that the Local Government Reform Program, supposed to be mainstreamed in the government machinery almost 10 years ago, is still very incompletely implemented shows either that it is not adapted to the Tanzanian reality today because of capacity constraints at the local level or is opposed by some political forces that benefit from centralisation. If so, it might be better to rethink the laws governing the relationship between the central and local governments, in the direction of a *de jure* rather than a *de facto* centralisation bias. Yet it is unclear that such inflection in the initial reform would be approved by parliament. It would also probably meet the objection of donors, who have been strong advocates of decentralisation in the past.

### 2.2.2 Selective distrust of market mechanisms and the private sector

The distrust of the market mechanisms and the private sector was observed in two areas in the course of this study: the allocation of land rights and the attempts at restructuring the power sector.

As in many other sub-Saharan African countries, the Tanzanian government faces a dilemma in the agricultural sector. On the one hand, it wants to foster the development of the sector with modern technology applied on large-scale farms and productivity gains among smallholders. On the other hand, it wants to protect traditional farmers from being displaced by private investors. This objective is all the more important since traditional farming areas are where most poverty is found. Unsettling that sector could thus have bad consequences on poverty, as it had in the 1970s during the attempt at collectivising land, leading to a quasi-famine.

Based on the principle of public ownership of land, the Tanzanian land laws intend to combine these two objectives by distinguishing between village land for traditional farming and general land for modern productive uses of land, the former being governed by customary laws and the latter by statutory law. The difficulty is in the transformation of village land into general land for investment purposes.

Even though they were designed long after the end of the socialist planning period, the land laws very much retain the feel of a planning system. It seems as if they tried as much as possible to move land management away from a market system. However, there is no contradiction between the public ownership of land and the functioning of a land market if what is priced and exchanged is not the ownership but the right to use land, i.e. through long-run leases. To be sure, market operations on land rights take place today both in urban and rural areas, but the key operation that enables investors, or even the state, to access village land remains cumbersome, long, sometimes uncertain, and possibly costly because of the multiple opportunities for rent-seeking by land officers at various levels of the hierarchy. The community's wish to protect traditional farmers from being expelled from their land by commercial investors or speculators led to a labyrinthine administrative system that is considered by many observers to be a major obstacle to development.

The current system indeed has also led to some *a priori* antagonising of village communities with respect to agricultural investors because of the complexity and the frequent ineffectiveness of many of the deals between them, most often engineered by public intermediaries against bribes, or sometimes signed by corrupt village leaders acting without consulting their villagers. Compensation packages that involve promises of employing villagers or building village infrastructure, e.g. schools or rural roads, are indeed more difficult to enforce than a simple transfer of resources to village communities.

The proximate causes for the inefficiency of the land allocation process lie in the complexity of the land laws, under-capacitated public operators, particularly at the local level, and weak control of corruption. To this must be added the incomplete mapping of the land, which makes the task of processing and recording land operations particularly difficult. The important point is that both the lack of capacity and the rent-seeking behaviour are themselves to a large extent due to the complexity of the law and the extremely slow mapping process. Improving things thus involves correcting those two weaknesses.

Simplifying the complex administrative procedure to transfer land from villages to investors might work through more reliance on market mechanisms, such that village communities and investors, rather than numerous public intermediaries, would be the main actors of the transactions. They would have to agree on the size of the land to be transferred, its location, and the price to be paid, including both the compensation to the community and the rent to the state, the village community being fully responsible for managing the reallocation of land that might be needed among villagers. Full publicity of transactions conducted elsewhere in the region or in the country, as well as information on the consequences of the corresponding deals among smallholders, would be absolutely necessary to guarantee market transparency. In other words, village communities – i.e. village councils and general assembly – would keep full control of the leasing transaction, affected smallholders being compensated through appropriate transfers within the village rather than through direct individual bargaining with the investor, as has been the case. National interest would be taken into account only in the very final steps of the procedure, with some veto power in the hands of the government in case the deal bears on very large swaths of land and is thought to be harmful for the national or regional economy.

Information on transactions and their consequences for village communities is essential. Knowing the price at which transactions took place in the region is a guarantee that no side will feel cheated if an agreement is reached. More importantly for the villagers, knowing whether smallholders were ultimately harmed or benefited from the deal, possibly through the public goods the village could acquire thanks to the deal, is key to avoid social disasters or to obtain the right compensation.

Arrangements other than cash transaction for the unconstrained use of the land are sometimes made with investors: contract farming, smallholders acquiring equity in the investor's venture and continuing to work their land, compensation in kind, etc. Except maybe for contract farming, adapted only to specific cases, all these arrangements are bound to result in conflict at some stage, either at the time of sharing profits or when deciding on the payment to labourers. Previous experience is not encouraging. Such contracts are simply too complex and cannot take into account all contingencies. Instead, a cash deal made between the investor and the village with redistribution within the village and the acquisition of public goods being left to the local authority is more transparent and makes village authorities fully accountable, as they can always refuse a deal with an investor if they feel the social cost of reallocating land within the village outweighs the price of the transaction. Of course, such a practice would not guarantee that the decision taken is fully democratic and the benefits of the deal are equally shared, possibly through additional public goods. But this is not the case with present arrangements either.

Of course, for such a market-like solution to be possible, it is necessary that the whole land has been mapped so that precise limits to the land being transferred can be established. This requires resources to be made available for that purpose, although there seems to be some disagreement on the actual cost of that operation. Within villages, land management could remain as it is, with some possible land reallocation under the control of the village council in case the land transferred to investors impinges on the farms of smallholders. The titling (CCROs) process would keep developing, preparing perhaps the extension of the within-village individual transactions to transfers of land rights to people or entities outside the village, something that is not allowed today and takes away a lot of the benefits expected from CCROs by making financial intermediaries wary to rely on a collateral with no market value.[12]

Such a reform direction clearly goes against the ideological bias that, since independence, has emphasised the need to protect smallholders against investors and speculators who would take away their main asset at a low price. This may be one of the deep factors against giving more space to market mechanisms in land matters. An important point against this argument is that decisions would keep belonging to communities and not to single individuals. With enough publicity being given to all land transfers to private investors – this is of course essential – village communities would be fully aware of the gains to be expected but also of the consequences of reducing the land available to their members or for common use.

The ultimate objective of the land right allocation system is to increase the rentability of land by allowing for better uses or providing incentives for raising yields, adopting new technology, and optimising the output mix. A bigger role given to market mechanisms in land right transactions should strengthen the incentives for investors, village communities, and smallholders to go in that direction by implicitly putting a value on the assets embodied in land rights.

Reforms in that direction would probably be resisted by civil servants and politicians, who are currently able to extract economic or political rents from the present imprecision of the decision-making structure. They would also be opposed by peasants and village communities given their bias against outside investors and the present lack of transparency of transactions. The structure of political power clearly matters here. To the extent that village communities would retain full power, however, it should not be too difficult to attenuate this bias.

How to move in this direction and how to cast a reform of the present system requires careful thinking. In the long run, however, it is likely that such an evolution will take place sooner or later and will improve the efficiency of land management.

The proximate causes for a distrust towards the market and private actors in the power sector are of a different nature. Historical legacies matter, but so do the rent-seeking opportunities for politicians close to the central power to control the operations of a big public company, most importantly the procurement process.

History matters here because of the socialist past of Tanzania and the primacy of public companies in the socialist era, especially in the delivery of such a critical good as electricity. But history matters also because of several huge corruption scandals linked to sub-contracting power generation to private firms. Keeping the electricity company as a vertical public monopoly is seen as a kind of guarantee against such corruption cases. But, of course, doing so also provides rent-seeking opportunities to influential politicians in all

[12] Note that evidence on this is mixed; see Lawry *et al.* (2016).

procurement operations made by the public company, including with private providers when the capacity of the company is overly constrained – as has been the case in the past.

Correcting the situation requires on the one hand re-establishing credibility in the procurement process. This means better supervision of procurement operations, but more importantly a composition of the contract-awarding commissions guaranteeing its unbiasedness. Allowing one or two reputable foreign experts to sit on this kind of commission may be a way of getting closer to that objective. On the other hand, unbundling the public electricity company into power generation and distribution and allowing private providers to sell power to the public company would mean competition and therefore more transparency and fewer rent-seeking opportunities in power provision. After all, this kind of reform was repeatedly recommended by expert reports and explicitly considered in the Electricity Act passed in 2008 and presumably still in force today.

### 2.2.3 Under-performing civil service

In one of the first evaluations of governance in Tanzania in the mid-1990s, the civil service was found to be one of the key weaknesses of the public sector (according to the 1994 Helleiner report as cited by Edwards, 2012; p. 42). Things have changed enormously since then. The skill of civil servants has substantially increased, and several reforms of the civil service have been undertaken (Public Service Reform Programme, PSRP I and II), which introduced a more rigorous recruitment process and a performance-based management of careers. A new wave of reforms is presently under preparation (PSRP III) that is meant to address several of the weaknesses mentioned earlier. The draft of that reform explicitly acknowledges that the public service is confronted by issues of staff demotivation and indiscipline, accountability is inadequate, corruption remains widespread, some staff are under-skilled, the public service is not fully functioning as a meritocracy, and leadership needs to be strengthened to be more dynamic and visionary.

Without anticipating the actual measures to be included in this new reform, improvements are certainly still needed in the civil service. Judging from the absenteeism among teachers and, to a lesser extent, health personnel, there is no reason for productivity to be much higher in other occupations in the government sector. The problem is that, unlike for teachers and health operators, productivity is not directly observable. Presumably, however, supervision is not stronger so that shirking should be as frequent as teachers' absenteeism.

There may be various reasons behind this behaviour, including inconsistencies in recruitment policy or the complex organisation of the public sector. In education, the coexistence of a severe scarcity of maths teachers and the huge excess supply in other areas may be a sign of this. In any case, the estimate of the aggregate loss due to absenteeism and shirking is high – roughly 2.5% of GDP, not including the weak performance of school children or the low quality of other public services.

The proximate cause for this state of affairs has to do with incentives. In this respect, a first possibility is that salaries are insufficient to compensate the efforts and time teachers would spend in school if they were indeed there full time. Teachers and, by extension, other civil servants then tend to shirk and moonlight so that their standard of living is equivalent to what they could get with another (private) employer. On average, however, it has been seen that, other things being the same, salaries in the public sector are substantially higher than in the private sector, even though this may be more the case for low- rather than high-skilled workers.[13] In short, some salary adjustment may be needed in some parts of the civil service – for instance, for graduate secondary school teachers or to attract candidates in maths and science – but, overall, the compensation of civil servants does not seem to be a major disincentive to effort. The same seems to be true of career prospects, which have supposedly been improved in the last programme of Public Service Reform.

The alternative cause for weak incentives could be the ineffectiveness of the monitoring and evaluation (M&E) function within the public service and/or lack of rigorous supervision of civil servants by their managers. Shirking may be easier in the public than in the private sector because not enough resources are allocated to M&E activity in the former and the supervision structure of the civil service may be poorly organised. It may also be the case that M&E agents and supervisors are shirking themselves or tend to side with the public-sector employees they are supposed to evaluate because of the public sector status they share with them. In both cases, they are not performing the task entrusted to them.

There is a huge body of literature on how to incentivise teachers. Experiments in this area have been conducted in many countries. In Tanzania, the need to improve the performance of the education system has been duly recognised and much reflection and experimentation has been undertaken[14]. It must be noted, however, that the focus of these efforts is more on school achievements among students than on measured efforts of teachers as such. Problems other than teacher absenteeism may indeed be responsible for the poor performance of the education system. Beyond the performance of the educational sector, however, the emphasis put here on teacher absenteeism is because it reveals a major flaw in the way the education sector is managed, this most likely being also the case in other parts of the public sector. Increasing productivity is essential but the first step is to discipline public sector employees so that they devote to their work the time they are contractually committed to.

Understanding why supervisors do not enforce better discipline on their subordinates and why M&E does not function better is essential for designing the measures most able to remedy that situation. As other developing countries, Tanzania has a long tradition of seeing a civil service job as a perk with essentially low expectations at all levels of the hierarchy about the productivity of civil servants. Introducing performance-based remuneration as done in the recent reform of public service is doubtless going in the right direction, but such a measure is clearly bound to be inoperative if performances are not properly evaluated for lack of capacity or motivation of the evaluators.

Other proximate causes for the underperformance of the public sector is the lack of resources and the relative lack of civil servants' skill in some crucial areas. Here, again, the

[13] The starting teacher salary is TZS (Tanzanian shilling) 420,000 gross. Such a salary level is far from being infrequent among starting young workers with a bachelor degree, presumably higher than grade A teacher degree, which presently requires a single year of training at the end of high school. Under-compensation seems to be more a problem among secondary school teachers. Evidence of this is the extremely high attrition rate for this category of teachers. On these aspects, see Ministry of Education and Vocational Training and UNESCO (2014).

[14] See for instance the KiuFunza experiment led by Twaweza and IPA at www.twaweza.org/index.php?i=1626 and the RISE Tanzania programme at www.riseprogramme.org/sites/www.riseprogramme.org/files/inline-files/RISE_in_Tanzania_Research_Overview_1.pdf

education sector is a good example. The performance of the primary education system is low because of the scarcity of teachers and increased school enrolment – in part due to abolishing tuition fees – because of teacher absenteeism and because their training is recognised as inadequate. Things are even possibly worse now that the basic teacher training has been reduced to a single year in teacher training college with a second year 'hands on' in school, but with limited supervision. The situation may be particularly serious in teaching because of the need to increase the number of teachers to comply with the target student–teacher ratio at a time of fast-growing school enrolment. As a matter of fact, a large part of the very fast increase in the size of the civil service over recent years is due to a massive recruitment of teachers and one may thus understand that the quality of recruitment, including teacher training, has gone down.[15] Recruitment in other public activities has been big too, with possibly the same effect on quality.

Remedies to these proximate causes of the lack of effectiveness of civil service are obvious: the compensation system has to be re-examined to make sure that it is adapted to the reality of the labour market, especially in areas where the supply side seems short; the M&E must be scaled up and made more effective at all levels, in particular by making sure there is no collusion between those who evaluate and those who are evaluated; and recruitment and training must be improved.

It is unlikely that such measures would meet any real opposition within the Tanzanian political elite, except maybe from workers' unions complaining of excessive supervision and therefore workload. The main constraint here is resources. It was seen that the Tanzanian budget is already extremely tight and relies extensively on foreign aid and foreign loans. Improving the quality of the civil service may thus require difficult trade-offs within the public budget and certainly imposing more discipline with little overall changes in the compensation system.

### 2.2.4 Rent-seeking and corruption

Rent-seeking activity and corruption may be the clearest symptoms of weak-performing institutions. Rent-seeking opportunity arise from situations where a public sector agent with some autonomous decision power grants to a private sector agent an advantage in a way that is openly illegal or bypasses official operational rules. The cost of such behaviour is twofold. On the one hand, it biases the economic allocation process in comparison with what the institutional rules are expected to produce – which may not necessarily be economically efficient in a first-best and not even in a second-best sense. On the other hand, it redistributes resources in a way that may be regressive, as when poor people find themselves forced to pay bribes to access a supposedly free public service.

The proximate cause for rent-seeking and corruption lies first in the incentives for agents to adopt such a behaviour. As with absenteeism or shirking, this may be due to an inadequate compensation system and agents compensating for it through extracting rents from others, or to weak M&E. But, as was clear from the discussion on land laws, rent-seeking may also be the consequence of ill-conceived institutions that grant too much *de facto* unchecked decision power -*de facto* a monopoly power - to potentially untrustworthy agents or impose

[15] On all these issues of teacher pay and teacher training, the interview with the head of the Tanzanian Teacher Union, Ezekiah Oluoch, in *The Citizen* (21 May 2014), is extremely informative.

rules that are unduly restrictive for economic activity. In the latter case, it is even possible that corruption is Pareto-improving, in the sense that it improves the lot of the briber, of the one who pays the bribe, and of the whole community.[16]

Yet there is also an externality dimension in rent-seeking and corruption that must be stressed because it conditions the way to fight it. If this behaviour were limited to a few public officers, it is likely that they would soon be confounded with enough discipline on the part of the executive, a policy that would probably be accepted by most political actors. The difficulty appears when this behaviour becomes so widespread that everybody may hold everybody else under the threat of denouncing him/her. A knows that B will not denounce him/her because B knows that, if she/he did, she/he would then be denounced by A. Also, those paying a rent for some service to A or B will not denounce them as long as the institutional constraint that makes a bribe mutually advantageous has not been corrected. At some stage this mutual threatening among rent-seekers and the disincentive for those who pay the bribe to denounce their briber leads to the development of a true culture of corruption where everybody acts under the expectation that none of the people aware of his/her action will denounce him/her. Transactions that violate the formal rules then become 'normal'. Informal bilateral rules are a substitute for formal collective rules.

Economic theory provides an interesting representation of this phenomenon under the form of a multiple equilibrium. The mutually neutralising threat of denunciation defines an equilibrium where most agents are corrupt, asking for, or paying a bribe.[17] For this to be the case, the probability of denunciation must be low, meaning there are few 'clean' people. But there is another equilibrium where a large proportion of people are clean, which makes corruption dangerous because of the high probability of being caught.[18] Most observers tend to believe that Tanzania is in the former equilibrium, with corruption so widespread that it is indeed in the culture of Tanzania (‘corruption is a way of life in the Tanzanian society’ wrote a journalist in view of corruption scandals at the end of the Kikwete mandate)[19]. In some instances, it makes the public sector dysfunctional. The rigged procurement cases in the power sector are good examples of this.

Although very crude, this model is interesting because it shows the enormous difficulty in fighting corruption when it is widespread, that is to go from the corrupt to the clean equilibrium. Introducing some dynamics in this model, it can be shown that small departures from the original equilibrium with a slight increase in the probability of corrupt people to be sanctioned cannot prevent the system from going back to the original equilibrium. This is what has been observed in Tanzania with various past attempts at curbing corruption. Moving to the clean equilibrium requires a kind of 'big push' with a sufficiently large group of people above any suspicion of corruption leading the fight against corruption.

The reason why such a move can be made only by people known to be fully uncorrupt is that they would not be credible otherwise, as they would be under the threat of being denounced by people who are aware of their past misbehaviour. For the same reason, the corrupt

[16] This 'corruption greases the wheel' argument was first made by Leff (1964) and Huntington (1968).
[17] This equilibrium resembles the inferior 'prisoner's dilemma' equilibrium. The existence of another 'clean' equilibrium corresponds to another game called the coordination game or 'assurance game' (see Nichols, 2003). A more complete model has been proposed recently by Dixit (2017).
[18] See the argument in Wydick (2008).
[19] Cited in Policy Forum (2017), p. 8.

manager in some ministerial department cannot force his/her subordinates to adopt a clean behaviour. The latter would reply by threatening to denounce him. This also explains why the uncorrupt elite must be numerous enough or be in key positions, especially in the police and the judiciary, to have a chance of eradicating the culture of corruption.

There are examples of countries that successfully combated corruption, or at least reduced it to sporadic cases, starting from a culture of corruption. Singapore and Hong Kong may be the most famous cases. In both countries, a big corruption scandal moved the public opinion against corruption. Then, a politically powerful leader put together an anti-corruption team made up of police personnel and judges above any suspicion that worked directly under his control and whose mission was to sue corrupt civil servants and business people with maximum publicity. It took time, but it worked. In the case of Singapore, interestingly enough, the strategy was not limited to convicting and suing corrupt public officers. It also included redesigning the law so as to eliminate rules that would provide rent-seeking opportunities as well as making sure that civil servant salaries were well aligned with remunerations in the private sector (Quah, 2011).[20]

However, there are many more examples of countries where anti-corruption policies and agencies were unsuccessful or short-lived, including Tanzania. The main difficulty is forming the 'above-suspicion' anti-corruption core team, giving it all the resources it needs, politically supporting its decisions, and maintaining the fight for long enough.

Corruption seems to be sufficiently severe in Tanzania for seriously considering such policies. This is the position of the present government, which launched an aggressive anti-corruption strategy based on a solid team around the president. It includes major changes in the appointment of managers to ensure they are uncorrupted. Yet it is much too early to make a judgement about its probability of success. Deep political factors are, and will be, for a long time at work. Disciplining the upper tier of civil servants is a good thing. Doing so with members of the dominant party proved quite difficult in the past[21] and might still be hard today.

It should not be forgotten that, as mentioned in the case of Singapore, simplifying the law, making the administrative apparatus more transparent, reducing the monopoly power of civil servants in particular decisions, and aligning their compensation with the private sector are an equally important side of the fight against corruption. Most importantly, such measures are much less likely to be resisted by those political forces that would be under threat in a direct attack against corruption.

### 2.2.5 Patronage and the weak regulation of business

A slightly different aspect of corruption is the clientelist behaviour of governments and the political elite. Formally, this is not straight corruption in the sense that no rent extraction is formally exerted. Instead, politicians offer advantages to some people, most often the business elite, in exchange for economic support. It is legally reprehensible in some cases, as with vote-buying, but political support may take more subtle forms, for instance through

[20] The cases of Singapore and Hong Kong are also discussed in Dixit (2016). Interesting practical suggestions are made at the end of the paper.
[21] Politicians involved in spectacular corruption scandals have often been able to avoid sanctions or eviction from the dominant party. This even occurred with government members.

contributions to electoral campaigns. The latter is generally supposed to be strictly monitored but, in practice, support may amount to much more than the legal limits or be indirect through grants to regional development or other causes (Babeya, 2011). To the extent that, when elected, politicians will be in the situation to uncompetitively grant advantage to their economic supporters, the difference from straight corruption is indeed small.

Because electoral support mostly comes from the business elite, this patronage system is equivalent to the latter extracting a rent, under the form of a competitive advantage or otherwise, from the government or, more exactly, from citizens. They are in a position to do so for three major reasons. First, they have the resources to support the electoral campaigns of their political allies. Second, as economic growth relies to a large extent on big business, no government would take the risk of antagonising them. Third, major firms are often in monopolistic positions, which limit the leverage the government may have on them. Practically, there is thus some implicit collusion between major businesses and the government, or factions in the dominant party.

Such a state of affairs is certainly not a guarantee of economic efficiency since the interest of big groups is not necessarily that of the nation. The institutional weakness here is the lack of independence of the government or public decision-making process with respect to the interest of major private companies.

It is not clear that there is any difference in the present case between proximate causes and deep factors. Deep factors are directly at stake here, in particular the structure of political and economic power and the way in which they interact. Pursuing an economic development strategy, for instance an industrial policy or a tax reform, that would hurt the interest of some major firm would be a risky bet for governments, as the firm might retaliate by favouring rival political groups or, when in partial control of the media, campaigning against government's decisions.

The present administration is facing this problem, as its predecessors did. Shortly after taking power, President Magufuli stated that he would not let business people ‘play with his government’. He then took vigorous action in that direction by fighting tax evasion and intervening in several corruption cases that involved big companies. Without really releasing the pressure, he nevertheless made clear a year later that he was open to signing agreements with them provided they contributed to the industrialisation agenda.[22]

This is probably the right strategy for the time being. Yet, even though the relationship with the leadership has improved, big firms retain considerable power, including of course that of influencing the political game. As the dominant political party, CCM, is somewhat fragmented in various political factions, there has always been room for big companies to play one faction against another and unsettle the executive. As seen earlier, this may change if the leadership is able to exert more control on the party. However, the only effective way of reducing the power of big businesses is to weaken their monopoly position both as leading economic actors and in their areas of specialisation. This in turn requires fostering competition on two levels. First, by favouring the emergence of new economic leaders, which includes making sure that promising business managers will not be ostracised

[22] See Andreoni's (2017) distinction between 'Magufuli the bulldozer', a nickname he inherited from his time as Minister for Public Works, and 'Magufuli the builder'.

because of their ethnic origin or other personal characteristic. In other words, there should be no glass ceiling, most notably when raising funds, for entering the business elite other than talent. Second, by checking that incumbent firms are not restricting competition in their area of activity by raising barriers of entry, including through artificial business regulation obtained from the government. In short this would mean empowering the Fair Competition Commission and sectoral regulatory authorities, e.g. the Sugar Board[23], so that they are more proactive and more rigorous, this being particularly important in the financial sector. Foreign investment and trade policy, in particular the dismantling of various types of non-tariff barriers since base tariffs are set at the level of the East African Community, should also be used to check domestic monopoly power and foster the development of new activities. At the same time, trade and tax authorities should be encouraged to tighten the control of counterfeit imports and the levy of legal tariffs. Transparency of the long-run industrial policy pursued by the government is also a necessary condition for resisting local big business pressure.

In relation with big domestic companies and the design of industrialisation strategies, the development of South Korea bears some lessons. Although industrial development was based on big companies, i.e. the *chaebols*, the Korean government managed not to become their hostage and to develop its own strategy. This was done by creating competition between *chaebols*, especially in export markets where they would not be constrained by domestic demand, never granting support to one group that would not be granted to at least another (Amsden, 1989).

Promoting competition among leading companies in Tanzania would not bear fruit in the short run and it may well be the case that it would be partly neutralised through their political leverage. Coupled with an authoritarian stance on corruption and an adequate communication policy on the government's industrialisation strategy, it may nevertheless progressively improve the competitive landscape, restrict the *de facto* political power of the business elite, and allow for a more effective and more open collaboration between the government and business.

## 2.3 The need for more transparency and accountability of the central government

Summarising the preceding sections, the proximate causes for the institutional weaknesses identified in this volume are clear. Although they concern diverse aspects of the functioning of institutions, they also fit well the three basic causes for economic actors not behaving according to the rules that constitute institutions: lack of capacity or skills to apply the rules, weak incentives not to deviate, and rules that are too complex or ill-adapted. Several types of remedies have been mentioned, depending on the institutional weakness being considered. Some of them essentially require more resources and capacity building among civil servants in various positions. Implementing them should not raise any opposition, except, of course, if this means reducing the resources devoted to other uses. The same is true of the cases where the compensation of public officers is inadequate, this being an incentive for absenteeism and rent-seeking. Another type of remedy is to enhance the M&E function in public service in terms of frequency and effectiveness. This is most likely to raise

[23] This is mentioned in reference to the kind of collusion that has been observed in the past between big import companies and this particular regulatory authority, to the detriment of local producers.

some resistance from unions and to reinforce the political opposition to the government. Hidden opposition is likely to be still stronger when attacking corruption, a key institutional weakness now deeply rooted in Tanzanian society, or trying to regulate big business to enhance its contribution to development.

With the latter lines of reform, institutional improvement touches upon deep political factors. The success of such reforms depends on the political game and to a large extent on another deep factor that has been little alluded to before, the *trust* that citizens may have in the political personnel, and the popular support enjoyed by the government, and the president in the first place. In the latter respect, the transparency and accountability of the government play a key role because, through the openness and clarity of the public debate and the evaluation of the executive's actions, they deeply affect the political game. A government that is popular and trusted by public opinion may take decisions and be successful in areas that would be blocked by particular interests otherwise. Conversely, lack of transparency and accountability feed suspicion by the public and make governments weaker in front of vested interests.

Asked about transparency in Tanzania, Mathias Chikawe, former Minister of Justice and Constitutional Affairs, said a few years ago: 'It's something that is not in our culture!', adding: 'Our government has always been run on confidentiality'. It is difficult to say whether Tanzania does better or worse than other countries on that account because of the ambiguity of available governance indicators and the confusion they tend to make between transparency, accountability, and corruption. The point worth stressing here is that, in view of the thematic studies conducted in this project and of the general challenges discussed above, Tanzanian governance is barely transparent and, when transparent, barely accountable.

Of course, governing a country cannot be done in full sight of everyone. This is not the point. Transparency and accountability essentially require government objectives and intended policy reforms to be publicly set out, and, *ex post*, properly evaluated and communicated to the public by free media so that lessons drawn from experience are integrated into new reforms and development strategies.

In the case of Tanzania, it is sometimes argued that the representation of the dominant party, CCM, in parliament is so overwhelming – 72% of the seats today – that debates do not have much content, the reason being that the opposition knows its viewpoint does not matter. Thus, the legislature cannot really hold the executive to account (Lawsen and Rakner, 2005). This has not always been the case, though, as could be seen at the time of the Escrow scandal – several hundred million dollars siphoned from the Central Bank – when the Public Accounts Committee of the parliament, chaired by a member of the opposition, exposed those members of the government whose carelessness had permitted this to happen and obtained their resignation. If this committee was so effective in that major instance, why not in others and on different issues?

This event and earlier scandals that also became public show that there is 'some' transparency in the system. But what about those scandals that were not unveiled? And what can be said about the accountability of a government and a dominant party that fails to act against the culprits after they have been publicly exposed and have resigned from their public position, but not from the party, as has so often been the case?

Transparency and accountability are missing in areas other than corruption. As stressed earlier in this chapter, not enough efforts are being devoted to the evaluation of the functioning of the public service or to specific policies. The decentralisation reform has apparently not been fully implemented. Why is this the case? Should this be corrected? With respect to land laws, two Land Governance Assessment Reports have been completed (2009, 2015), and two SPILLs have been delivered (2005, 2013). Yet, reading these documents, it seems that little has been done in between. Another review of the National Land Policy has been commissioned by the government, the draft of which is presently being discussed. Such an inflation of reports with limited practical effects shows that land laws are not functioning satisfactorily as implemented. But it also shows the limited accountability of the central government, which should have explained publicly what the problems were and how it was approaching the solution. It is to be hoped that the forthcoming new review of the National Land Policy will entail more action.

It may also be stressed that none of these reports was a true evaluation, in the sense of attempting to quantify the economic and social losses, due to the difficulty of implementing the laws or to the law itself in comparison with alternative rules. It is striking for instance that no fully reliable database showing the number and general features of land transactions is available to evaluate the present system of land transfers. This lack or evaluation and data gap is also observed in the educational sector, despite public knowledge that it does not function well, or in other activities of the public sector.

Only systematic evaluations allow progress to be measured. Giving full account of them to the public is part of accountability. There may be capacity constraint in producing such evaluations, but they could easily be remedied if the political will were present. Transparency, accountability, citizens' trust and, therefore, good policymaking start with producing the adequate data, analysing them, and publicising them.

## 2.4 Two key principles for action

The basic institutional challenges singled out in the thematic chapters of this study could be traced back to proximate causes that take different forms depending on the institutional weakness being considered but result from a few basic mechanisms. Likewise, when examining the various remedies that have been suggested to overcome the proximate causes of basic institutional weaknesses, it is striking to realize that, outside pure capacity constraints, they rely on essentially two principles for action.

The first principle is to allow for more *competition and competitive market mechanisms* to play their role as much as possible but under adequate supervision and regulation. This is not a blind application of the dogmatic economic principle in favour of fully competitive markets, which, in any case, suffers a large number of exceptions. It must be interpreted exactly in the other way as the need to avoid unchecked monopoly situations in all possible decision-making areas, whether in the administration, the delivery of public services, or indeed in the market. This ‘more competition’ – or ‘less monopoly situations’ - principle applies to land management with decentralised cash transactions between village communities and potential investors, to power generation with competition among providers, or to sectors of activity dominated by big business. But it also applies to the public sector with reforms that would reduce the monopoly power enjoyed by some operators – for instance, by allowing users to use alternative paths to obtain a licence, permit or official document, and rewarding the most effective and expeditious ones. The extreme case is of course the use of information and communication technology (ICT) facilities that simplify procedures and keep records of the performance of public officers. Making public service more competitive also brings about the right alignment of compensation with labour market conditions and individualising careers by relying more heavily on performance evaluation, assuming of course personal evaluation is properly, i.e. independently, conducted and based on objective criteria rather than on personal relations or cronyism.

The second direction for reform is precisely the systematic *regular and rigorous evaluation of the functioning of the public sector, policy outcomes, and socioeconomic progress achieved*. Concerning the functioning of the public sector, this would require the institutionalisation of results-based management principles. The evaluation of policy outcomes and the measurement of social progress go beyond measures being taken and the programmes being launched. It should put into evidence and measure the outcome of government's action. The results of such evaluations, as quantitative as possible, should be made public and debated in parliament and in the media. This should ensure more transparency and accountability of the government's action and greatly improve the quality of the political debate.

Several countries have now made the proper independent evaluation of policies and reforms in some specific areas a constitutional obligation.[24] This could be an example to follow in Tanzania. Note, however, that this requires substantial progress to be made on the collection and the analysis of statistical material and for the evaluation to be conducted by teams of independent analysts, which could possibly include foreign experts or observers guaranteeing the quality and impartiality of the evaluation. Applied internally within the civil service, serious M&E would also allow for more efficient service delivery, provided again that the internal M&E task is performed with competence, independence and honesty.[25] Of course, these lines of action will not solve the challenges identified throughout this study from one day to the next. In the field of corruption, for instance, they may help progressively eliminate rent-seeking opportunities, but will take a long time to reduce corruption to the acceptable minimum observed in well-performing economies.

At the political level, this principle of evaluation includes the checks and balances principle that defines, among a few others, the functioning of democracy. Together with a strong dominant party, the Tanzanian constitution gives extensive power to the president, to such an extent that the first president, J. Nyerere, was known for joking about the constitution potentially allowing him to behave like a dictator. Strong central power, within reasonable limits, may be a good thing if wisely exerted. It is sometimes necessary to lead reforms that are fundamentally good despite wide opposition by the elite, including within the dominant party. This is the case in Tanzania with corruption. It is not an advantage if it means that the executive is able to avoid its action being properly evaluated by the popular representation and the public opinion and to ignore the recommendations on key subjects emanating from official expert commissions. The centralisation bias and the law implementation gap found to be key institutional challenges in Tanzania may be the result of such a concentration of

[24] Mexico may have been a frontrunner in this field. The evaluations of the effectiveness of public spending, and, by extension, of a broad set of policies, is also close to being a constitutional obligation in France.
[25] Note that the introduction of competition among evaluators, i.e. possibly having two evaluators or two evaluation teams, may permit the achievement of that goal.

power. Strengthening checks and balances, by introducing plurality in the filling of key positions presently under the sole control of the president and institutionalising the public evaluation of policies by independent experts, possibly including foreign observers, could contribute to improving the institutional context that conditions Tanzanian development.

Applied to specific sectors, such reinforcement of check-and-balance institutions and independent policy evaluation capacity might in some cases greatly help the central power, by publicly exposing the forces that go against development by pursuing their sole interest. If constitutionally guaranteed, independent evaluation may also prevent leaders using populism as a way to maintain themselves or the political faction they belong to in power.

## 2.5 Conclusion

Following the medical metaphor, a diagnostic should be a statement of what causes a disease based on observed symptoms. It would be accompanied by a prescription describing the cure that is suggested to eradicate the disease. We cannot be as rigorous and effective in our institutional diagnostic. We have a list of symptoms caused by underlying institutional problems in Tanzania and the way they affect economic development. Most importantly, our institutional diagnostic exercise has shed light on the proximate causes of these dysfunctions. General directions for reform have been suggested, keeping in mind that 'deep factors', most often of the political economy type, may prevent reforms taking place or being effective. Yet it is hoped that these reflections and conclusions will be of some help for thinking about long-run growth in Tanzania.

Given the use of the word 'diagnostic', some readers might have expected to find at the end of this volume a long prescription of things to do in most areas of public intervention. We have made such a list and mentioned in it several of the policy suggestions made throughout the volume – see Appendix. However, the real contribution of this study is elsewhere: it is in the deep analysis provided in this volume in relation to the basic institutional weaknesses, including the political economy factors that may prevent effective reforms, and in the few fundamental principles of reform stated at the end of the preceding section. These principles should guide the reflection of policymakers in elaborating reforms and monitoring the progress made.

Economists are expected to quantify the effect of all possible reforms on the level of economic activity, the rate of growth, and the reduction of poverty. This is not an easy task, for purely economic issues. In the field of institutions, this is simply impossible because of the extraordinary complexity of the way institutions affect development and the not-less extraordinary complexity of the mechanisms, including economic development, that could make institutions evolve. Economists produce cross-country analyses that address these deep issues, but they are much too rough and aggregate to describe the reality of a country. Progress can be made only through detailed analysis of real cases. By multiplying case studies like the present one, it is hoped that some common features will appear that could improve our understanding of the relationship between institutions and development, and provide interesting guidelines for policy.

The reason why the relationship between development and institution is so complex is because it cannot be analysed without explicitly accounting for the structure of political power. This is of primary importance in Tanzania, as in any other country. Our discussion of corruption is a case in point. It would clearly make no sense for an institutional diagnostic of Tanzania to simply conclude: ‘corruption is damaging and should be eradicated’. Such a statement is certainly true, but useless. First, it is difficult to know how damaging corruption is to the economy. Second, even if it can be shown that it is indeed very damaging, effectively eradicating it is not a simple policy decision. It requires huge political power, as well as the possibility of committing to such a policy for a sufficiently long time. Not all governments are in such a position.

An institutional diagnostic cannot get into the detail of the political economy of some of the reforms that could address patent institutional weaknesses. Yet it may be hoped that making the political actors aware of existing weaknesses and possible cures will also make them face up to their own responsibilities, whatever their political side. This is the reason why, irrespective of the political economy context, it is essential to show the nature of the institutional constraints that must be lifted to enhance development, and the nature of the instruments that can be used to eliminate particular institutional weaknesses. This is what we hope this study has contributed in the case of Tanzania.

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# Appendix: Summary of recommended governance-improving policy reforms and actions in this volume

**Public service**

- Enhanced capacity training
- Improvement of recruitment process (skills and motivation)
- Revisit the public service compensation scale by type of occupation relative to alternative employment (e.g. a teacher compensation evaluating commission)
- Generate and publish annual indicators of public service delivery quality (education[26], health, etc.)
- In education and health, rely on huge international experimental literature on improvement of providers' incentives and service delivery
- Strengthen internal M&E, i.e. OPRAS type, but rely more systematically on *external evaluations* by independent observers of the functioning of administrative entities
- Restructure public administration to reduce the number of positions with close to personal monopoly power in decision making at all levels

**Land management**

- Give more autonomy to village communities in dealing with investors and full ownership of cash compensations and rents
- Ensure full publicity of village-general land transfer operations (size, compensation, rents, impact on village small-holders)
- Maintain full record of all land operations
- Complete land surveying and the delivery of Certificates of Village Land
- Accelerate delivery of CCRO holders and allow for contracting with non-villagers

**Central government's transparency and accountability**

- Systematic use of independent ex-post evaluation, possibly including foreign observers, of the functioning of the public sector and policy reforms
- Regular publication and public discussion of a set of economic and social progress indicators – i.e. "beyond GDP"
- Transparency of appointment at high-responsibility positions (regulatory agencies - e.g. EWURA, Fair Competition Commission, Sugar Board, etc. – procurement commissions, Chief Justice, Controller Auditor General, etc.); appointment commissions including sectoral experts, and short-listing process, with publication of short-listed personalities.
- Reporting on the implementation of voted reforms and follow-up on expert commission reports

**Legal framework**

- Necessary revisiting and simplifying of the legal set-up in several areas: land, decentralization, etc.

[26] Original performances rather than SACMEQ scores based on average of countries participating to this programmme

### Competition

- Unbundling of TANESCO (generation-distribution, allowing competitive private providers)
- Independent expert reporting on protection – outside EAC rules