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TANZANIA INSTITUTIONAL DIAGNOSTIC

# AFTERWORD

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ADE ANALYSIS FOR ECONOMIC DECISIONS

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The Tanzania Institutional Diagnostic was mostly completed in 2017 and 2018 at a time when it was too early to detect structural changes attributable to the Magufuli administration that had come to power in 2016. The interviews with key actors of the preceding administrations and the survey taken on a sample of decision makers thus explicitly referred to the pre-Magufuli period. The same is true of the in-depth analysis of economic and social challenges and of the thematic studies. Data were unavailable and there was not enough hindsight to conduct such analysis. Changes that could have taken place over the last two years were thus mostly ignored. The question then arises of whether, with more visibility over the recent past, the main conclusions of the Diagnostic should be revised.

Some institutional aspects of the way both Tanzanian society and its economy function have recently been subject to change, and have been profusely commented on. Some changes were in the right direction, in the sense that they attempt to correct some institutional weaknesses emphasised in the Diagnostic. This is the case in regard to the implementation of new anti-corruption policies. However, it is too early to evaluate what is, or what will be, the impact of these policies. Some other changes are more debatable but, for them too, it is difficult to identify the effect they are likely to have on development. In what follows, therefore, we simply list the changes or decisions that are the most salient and the way they aggravate or possibly attenuate the institutional weaknesses identified in the Diagnostic.

Referring to the five basic weaknesses that were singled out there, we ask the following question: how would major events, policy, and reform decisions observed over the last two or three years modify the Diagnostic?

**Ill-defined structure of public decision making** was the first weakness. It is difficult to say whether progress has been made about the overlapping of responsibilities, an important point that was underscored in the Diagnostic, without surveying insiders. On the other hand, the 'centralisation bias' that was also emphasised has not weakened; indeed, quite the opposite given the numerous presidential interventions on detailed aspects of the functioning of the economy, from the export of cashew nuts to the management of the Dar es Salaam Port Authority, to regulating mining companies and to the formation of agencies taking over some functions of local government authorities such as the Rural Water Supply Agency and Tanzania Rural Roads Agency. It may also be recalled that the centralisation bias diagnostic was also partly based on the early overruling by the present regime of decisions made by the agency supposedly responsible for the regulation of the electricity sector, the Energy and Water Utilities Regulatory Authority (EWURA). Finally, the point made in the Diagnostic about the long implementation delays of laws and reforms still seem to apply. No progress has apparently been made on adjusting the land laws and a recent report on decentralisation (Ewald and Mhamba (2019)), meaningfully entitled 'Recentralization', similarly suggests there is no noticeable progress in pushing forward the Local Government Reform Programme.

Concerning *selective distrust of market mechanisms and the private sector*, the numerous statements of President Magufuli against the private sector – including both national and foreign firms operating in Tanzania – leads one to think that this institutional weakness has been aggravated. Nonetheless, this opinion must be nuanced. On the one hand, these presidential critiques and actions were probably not directed to the operations of the private sector *per se* but rather to their consequences in the area of corruption. Reducing corruption, which is the absolute priority of this President, has entailed not only sacking ministers and

top civil servants earning illegal income but also exposing the private firms providing it. Since the beginning of his mandate, the President has on many occasions stated that it was that aspect of the behaviour of private firms that he was criticising, certainly not their key role in economic growth, employment, and industrialisation. On the other hand, most indicators referring to the business climate have deteriorated in recent years. Tanzania has dropped 13 places in the World Bank Doing Business global ranking recently.[1] Furthermore, its 'regulatory quality' score, which includes business environment, in the Worldwide Governance Indicators significantly worsened between 2013 and 2018.[2] Of course, this may be due to the fight against corruption and tax evasion resulting in many private firms being the victims of some harassment by tax people. Business managers recently expressed their frustration to the President, who then demoted the Commissioner General of the tax collection agency – the Tanzania Revenue Authority (TRA). The President took this opportunity to castigate the approach TRA was adopting to harass businesspeople, which was leading to the closure of some businesses. He thus expressed a clear wish that the TRA would exert more effort to collect taxes without undue harassment. In addition, some other reforms have been undertaken to improve the business climate, like the easing of administrative procedures. The approval of the blueprint for easing the business environment in May 2018 and its implementation from 2019 onwards is a move in the direction of reversing the backsliding trend on the business climate indices and global rankings. Overall, however, there is still a wide margin for improvement.

The *underperformance of the civil service* was found to be a third institutional weakness. Because this is to a large extent the consequence of a limited availability of skills and resources, changes in this area are necessarily slow. Incentives matter too, however. From that point of view, action was apparently taken to dynamise parts of the civil service and public agencies. The fight against corruption in the public sector, as well as efforts to increase revenues, have led the executive to shake up the TRA several times. This crackdown has also affected other parts of the public sector. However, it is difficult to know whether it addressed the basic functioning of the sector or was limited to sacking managers. New managers were supposedly uncorrupted and expected to undertake efficiency-enhancing reforms. These efforts need to be reinforced by structural and institutional reforms to ensure sustainability, though. The public service reforms that are being implemented are a move in this direction. However, it is too early to make pronouncements in terms of their impact. Moreover, the data that are needed to evaluate progress are most often missing.

The last two institutional weaknesses identified in the Diagnostic were *rent-seeking and corruption* and *patronage and weak business regulation*. These have clearly been the top priority of President Magufuli's mandate, based on the personal commitments he made during the electoral campaign. The rigorous anti-corruption policy that was launched right from the start of the Fifth Phase Government focused on two sides of corruption: on the one hand, civil servants, especially at the top of the scale, and on the other hand big business. Action was taken against many people in top positions in the public sector, including ministers, top managers, and board members of public agencies who were either suspected or found guilty of corruption. Also, several firms were sued and their operations suspended

[1] See the World Bank's *Doing Business* reports, from 2015 to 2019 (www.doingbusiness.org/en/reports/global-reports/doing-business-2020). Relevant for the preceding argument is the fact that the worsening of Tanzania's rank is very much influenced by the 'paying tax' and 'trading across borders' component of the overall doing business score.
[2] See http://info.worldbank.org/governance/wgi/Home/Reports

for evading taxes, most often with the complicity of top civil servants and influential politicians. Famous cases include a row with the Canadian Acacia mining company, which was accused of under-reporting the gold content of the ore it was exporting and then forbidden to ship it abroad. The company had to cease operations before an agreement, which is more favourable to Tanzania, was found. Another notable regulatory dispute took place with Aliko Dangote, the Nigerian businessman, about a cement factory for which the government wanted to renege on promises made by the previous administration. Here too, the plant was closed for some time until an agreement was reached.

These affairs have a demonstration effect to other investors that is likely to have contributed to worsening the business climate and, as mentioned above, reinforced the feeling that the government has an anti-private sector bias, particularly against foreign companies. However, in more recent times the President has made pronouncements inviting investors including foreign investors to create or expand their businesses in Tanzania. Moreover, it must be stressed that the target in terms of some investors may not have been the companies themselves but rather the politicians and civil servants covering their illegal operations and benefiting from their largesse. If the objective was officially to make the operations of these companies more transparent, some observers also think that there may have been a political strategy behind it. Indeed, restricting companies' ability to bribe powerful politicians, who are most likely to belong to some faction of the dominant party, could have helped the President to better control that party. [3]

Effectively fighting corruption in a country where it has become a culture of course comes with some collateral economic costs, such as antagonising investors and the business community. To be sure, affairs like the Acacia–government row and the hassling of domestic and foreign firms by the tax authority have received widespread coverage by the national and international business media. Yet this reputational cost may be worth incurring if the expected impact of such a strategy on corruption and long-run economic growth is large enough. It is, however, too early to make any judgement on growth. As far as corruption is concerned, it is true that most indicators have improved. Tanzania's rank in Transparency International's 'perception of corruption index' went up from 130 in 2015 to 99 in 2018. Likewise, the Worldwide Governance Indicator for the control of corruption improved substantially, even though, in relative terms, it was in 2018 at a level comparable to 2008. The same is true of the World Bank Country Policy and Institutional Assessment index for corruption.[4] It must be realised, however, that those indicators reflect intended policies more than their outcome, the problem in the case of corruption being that outcomes are extremely difficult to apprehend in the short and medium terms.

In summary, the fight against corruption by the present administration is without a doubt addressing one of the major institutional weaknesses of Tanzania. This represents a major change compared to preceding administrations. Nevertheless, some time will be needed to ascertain whether this really modifies the institutional diagnostic conducted in the present study. Experiences in other countries suggest that beating corruption takes a long time and

[3] This argument was made by Dan Paget in https://africanarguments.org/2017/07/17/tanzania-magufulis-mining-reforms-are-a-masterclass-in-political-manoeuvring/.
[4] See, respectively: www.transparency.org/cpi2018, http://info.worldbank.org/governance/wgi/Home/Reports, and the World Development Indicators, World Bank.

undiminishing efforts accompanied by institutional reforms. In this regard, corruption is likely to remain a pertinent problem in Tanzania for still some time.

Putting things together, it seems that, although positive from several points of view, the action led by the present government over the last two or three years has not modified the basic institutional weaknesses identified in the Diagnostic. There is an improvement in some areas but there are signs of deterioration and possibly new weaknesses in others. This is the case of *transparency and accountability*, the two general principles of action recommended in the Diagnostic to help improve other institutions. The kind of departure from these principles seems to have changed, but the overall goal is still distant. While the Diagnostic found there was 'some transparency with little accountability' in previous administrations, the last three years seem to point rather to greater accountability with less transparency. Formerly, many cases of misconduct were detected without much action being taken. In comparison, fewer cases have been exposed recently but action has been taken, that is, accountability is now upheld without delay. Overall, however, the transparency of the government in relation to its citizens seems to have been reduced, in some cases threatening the sense of democracy that has characterised Tanzanian society ever since independence, a quality that the Diagnostic considered, albeit perhaps not explicitly enough, as a major institutional strength.

Deliberate opacity of policies and outcomes, infringement on individual freedom, and rising authoritarianism have been largely underscored and commented upon recently in the international press, whereas the national media has found it increasingly difficult to raise these issues domestically. The list is long of events and decisions that contribute to this judgement. A few examples will suffice here.

The amendment to the Statistics Act tabled in Parliament in September 2018 that made it a criminal offence to publish statistics released by the National Bureau of Statistics without authorisation is an example of the opacity the government has attempted to impose on the debate on policies and policy outcomes. A positive development has been the recent reversing of this decision in 2019. Even so, the Statistics Act of 2018 has restricted the debate on policy, in a direction opposite to the 'evaluation culture' recommended in the Diagnostic. It also cast doubt on the accuracy of published statistics, a doubt that is apparently shared by the World Bank, which estimates 2018 GDP growth has been noticeably lower than officially announced (World Bank Group, 2019: 11). In this vein, the vetoing by the government of the publication of the IMF Article IV statutory 2019 report, which suggested growth was slower than reported and was also critical of some of the government’s policies, inspires the same doubts. Because of such issues, it is hard to be convinced that efforts are truly being made toward more transparency and accountability in the economic policy sphere.

Outside economics, several recent events and government decisions, which often also pertain to transparency, have led several international NGOs of repute to raise some concern about the treatment of human rights in Tanzania. It is not the place here to go into any detail on issues that are largely outside the scope of the Diagnostic. Yet the fact that an NGO like Human Rights Watch has expressed concerns about the freedom of expression and the freedom of assembly in Tanzania, or that 30 civil society organisations recently called the attention of the United Nations Human Rights Councils to their perception that 'the space for human rights defenders (HRDs), civil society, journalists, bloggers, the media,

LGBTI persons, and opposition and dissenting voices' is 'shrinking' are to be underscored.[5] Also, a bilateral donor like the EU temporarily recalling its ambassador in November 2018 or suspending some aid programmes a little later, in both cases due to human right concerns, is not to be taken lightly, even though the crisis was quickly resolved.[6]

This human rights dimension of governance was not among the matters to be considered explicitly in the Diagnostic. Even if it had been, not much would have had to have been said about it in reference to the pre-2016 period. Tanzania is, after all, a country that was praised for its sense of democracy and its observance of human rights. If this is becoming an issue today, then it is likely that, sooner or later, such a change will also affect the institutional dimensions considered in the Diagnostic. At this stage, however, it is unclear how big the concern is and whether it will still prevail in the future.

In summary, the conclusion of this brief review of the way accounting for the very recent past might lead to a revision of the Diagnostic is twofold. First, among the institutional weaknesses identified in the Diagnostic, progress has been made on the corruption front, although it will probably take time before evidence of a real improvement is available. If this is indeed the case, then the short-run potential negative impact of the anti-corruption policy pursued by the present government on the business climate would be compensated for. There is no reason to modify the Diagnostic on other weaknesses, except perhaps to underline a possible accentuation of what was called there the 'centralisation bias'. Second, a new weakness may have appeared. Unlike as was recommended in the conclusion of the Diagnostic, it seems the present regime is moving away from the pursuit of transparency in many ways. Such an attitude may be part of a political strategy meant to ensure more authority rests with the President, possibly to win the anti-corruption battle. Most developing countries need 'strong' heads of state to push collective development rather than letting private interest rule. However, getting too strong without corresponding strong institutions may be dangerous if it means policymaking becomes less and less transparent. Besides mounting political discontent, the risk is that no correcting force would then prevent the country heading in a wrong direction.

# References

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[5] See the Human Rights Watch Report 2019 at www.hrw.org/world-report/2019/country-chapters/tanzania-and-zanzibar or the letter to the UN HRC at www.hrw.org/news/2019/05/13/un-human-rights-council-should-address-tanzania-crackdown.

[6] See press news at: http://en.rfi.fr/africa/20181231-worldeu-tanzania-sanctions and www.independent.co.uk/news/world/africa/tanzania-anti-gay-crackdown-arrests-eu-recalls-ambassador-dar-es-salaam-a8620546.html.