

Sector by Sector

Towards Feasible Anti-Corruption Strategies for Tanzania

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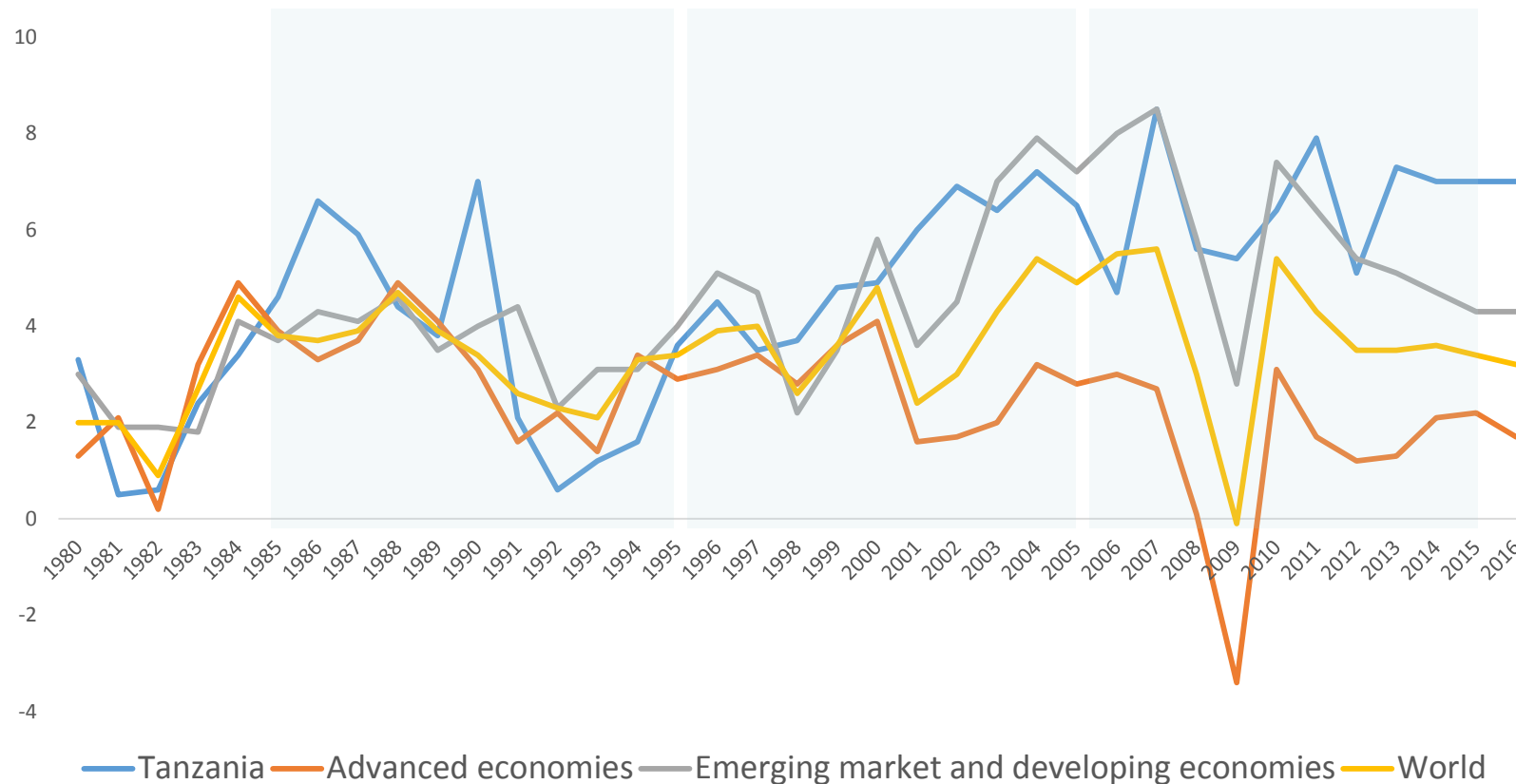
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Tanzania at a crossroads: economic growth

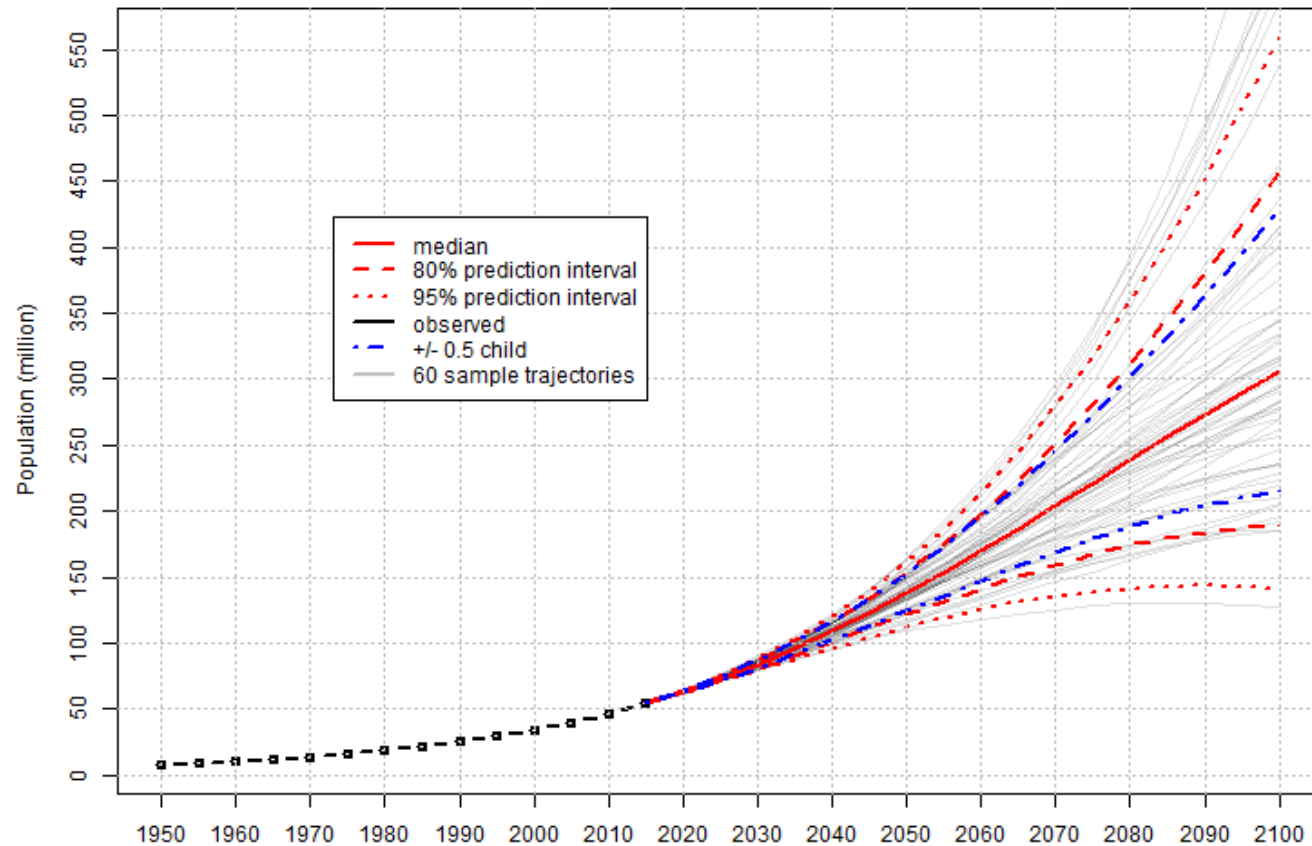
Source: World Bank 2017

- Tanzania has achieved significant growth performances since 2005



Tanzania at a crossroads: population booming

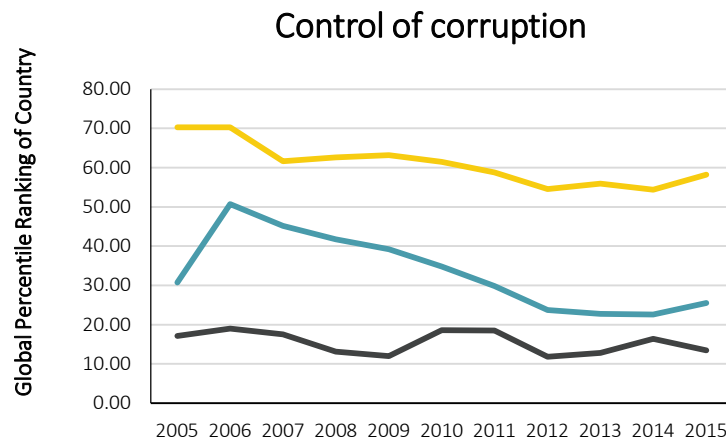
> 90 millions by 2030 (100 millions by 2035)



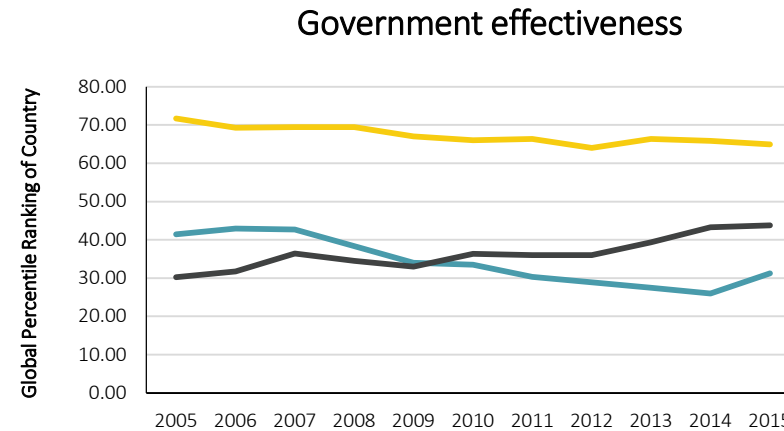
Source: United Nations, Department of Economic and Social Affairs, Population Division (2017).
World Population Prospects: The 2017 Revision. <http://esa.un.org/unpd/wpp/>

Tanzania at a crossroads: governance

- despite poor scores on its governance indicators (especially with respect to the control of corruption and government effectiveness)



— TANZANIA — KENYA — SOUTH AFRICA



— TANZANIA — KENYA — SOUTH AFRICA

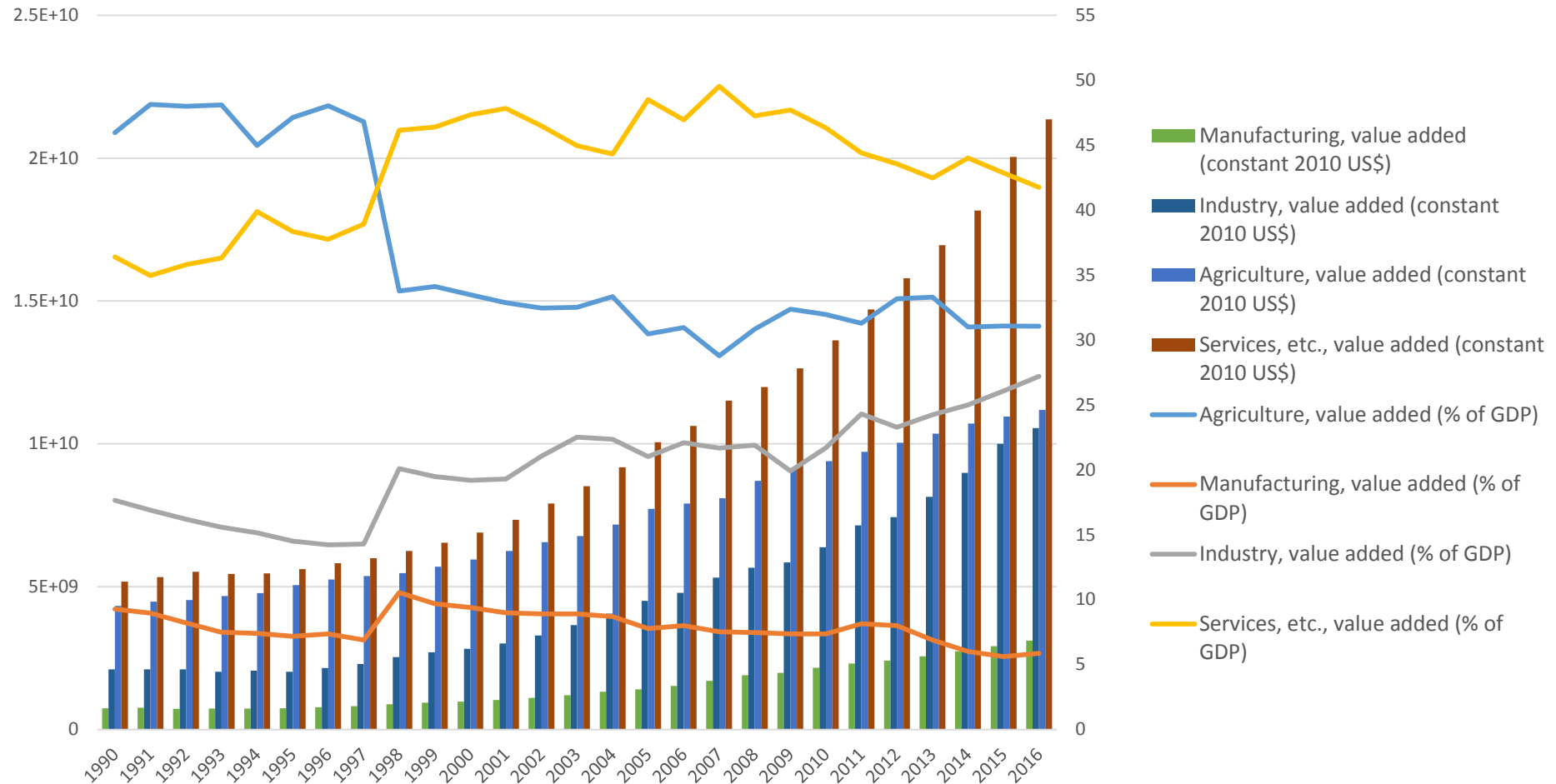
Tanzania at a crossroads: structural transformation?

- without sustained structural transformation

- agriculture still dominant (1/4 GDP, 2/3 Workforce), low productivity and constrained by capabilities/productivity/governance bottlenecks
- upward trend in manufacturing but discontinuous, contributing less than 10% to GDP, slow and limited changes in industrial competitiveness and export performances, dualistic structure of the local production system
- Informal service economy dominant in urban areas and often linked to rents capture activities

Tanzania at a crossroads: sectoral trends

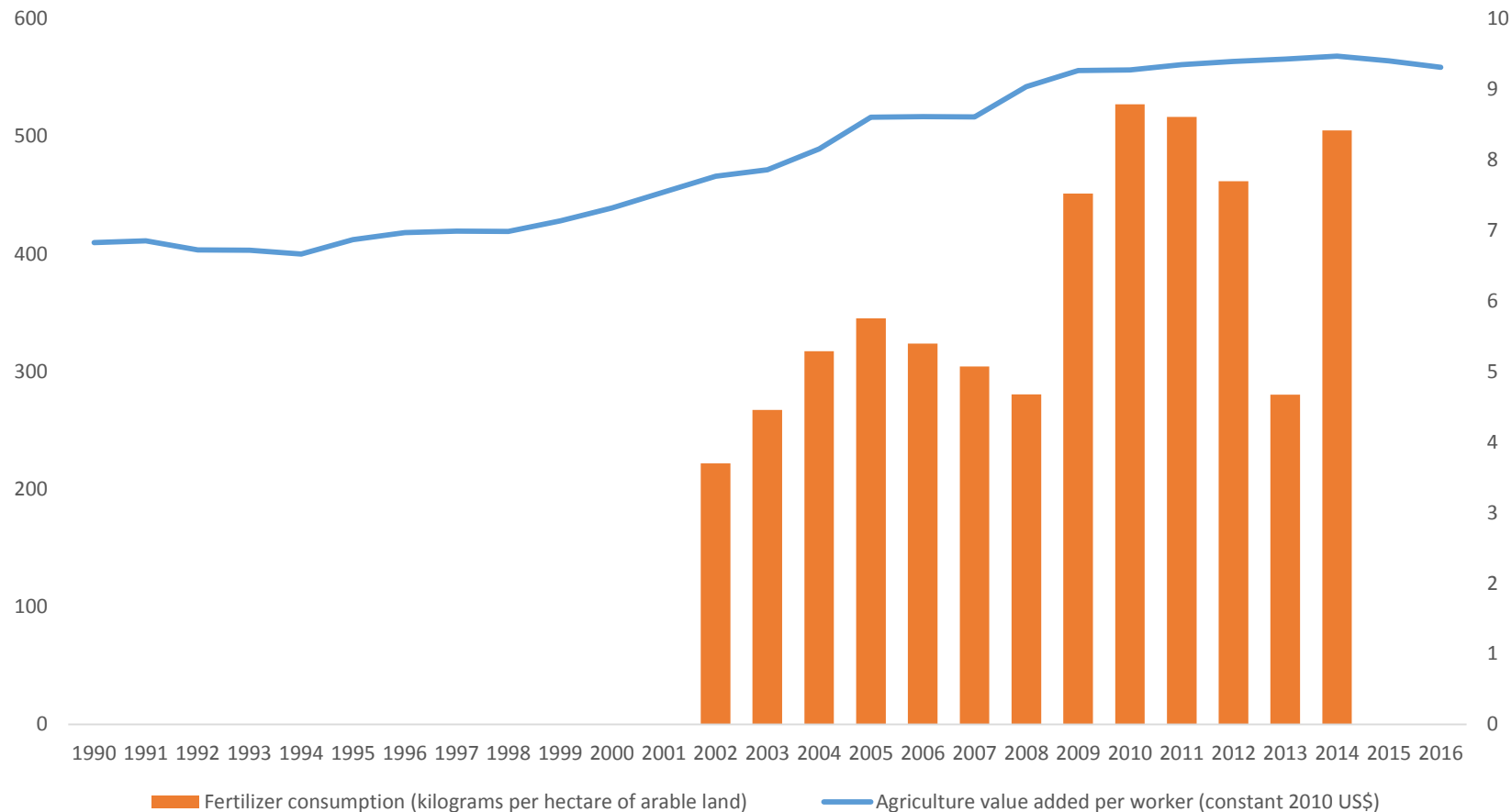
Source: World Bank 2017



Tanzania at a crossroads: low productivity

Source: World Bank 2017

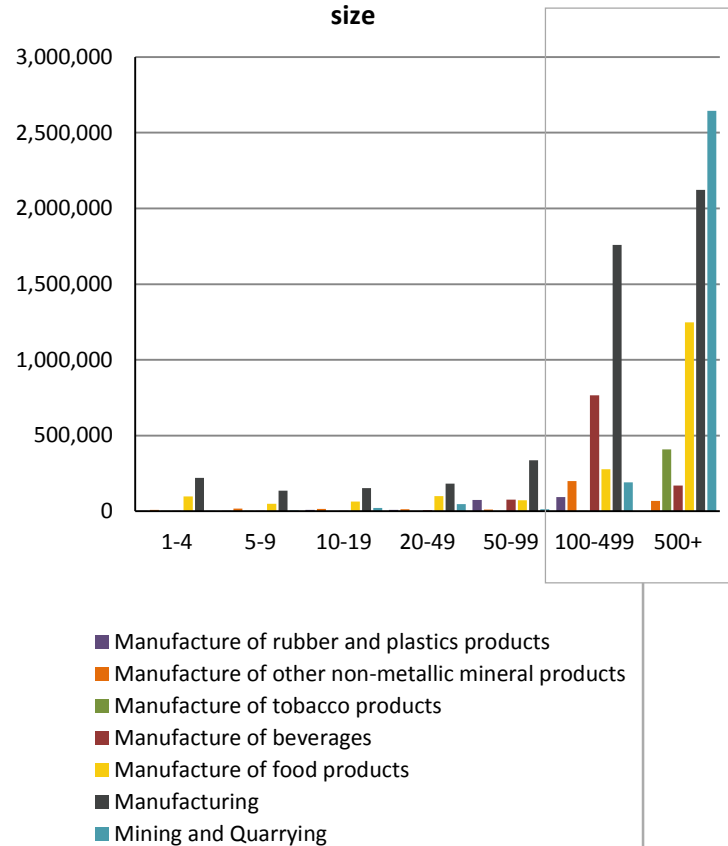
- Agriculture (68% employment), low VA per worker & investments (e.g. fertilizers; irrigation; etc.)



Tanzania at a crossroads: dualistic structure

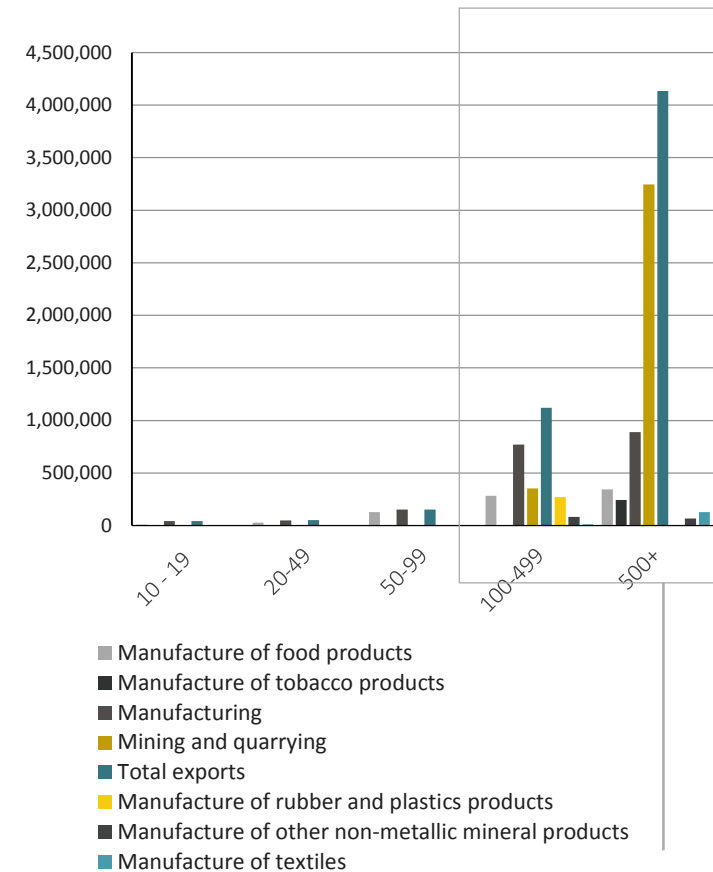
Source: Andreoni 2017

MVA by industrial sector and major manufacturing industries and by establishment size



80%VA, 200 est

Total export by industrial sectors and establishment size



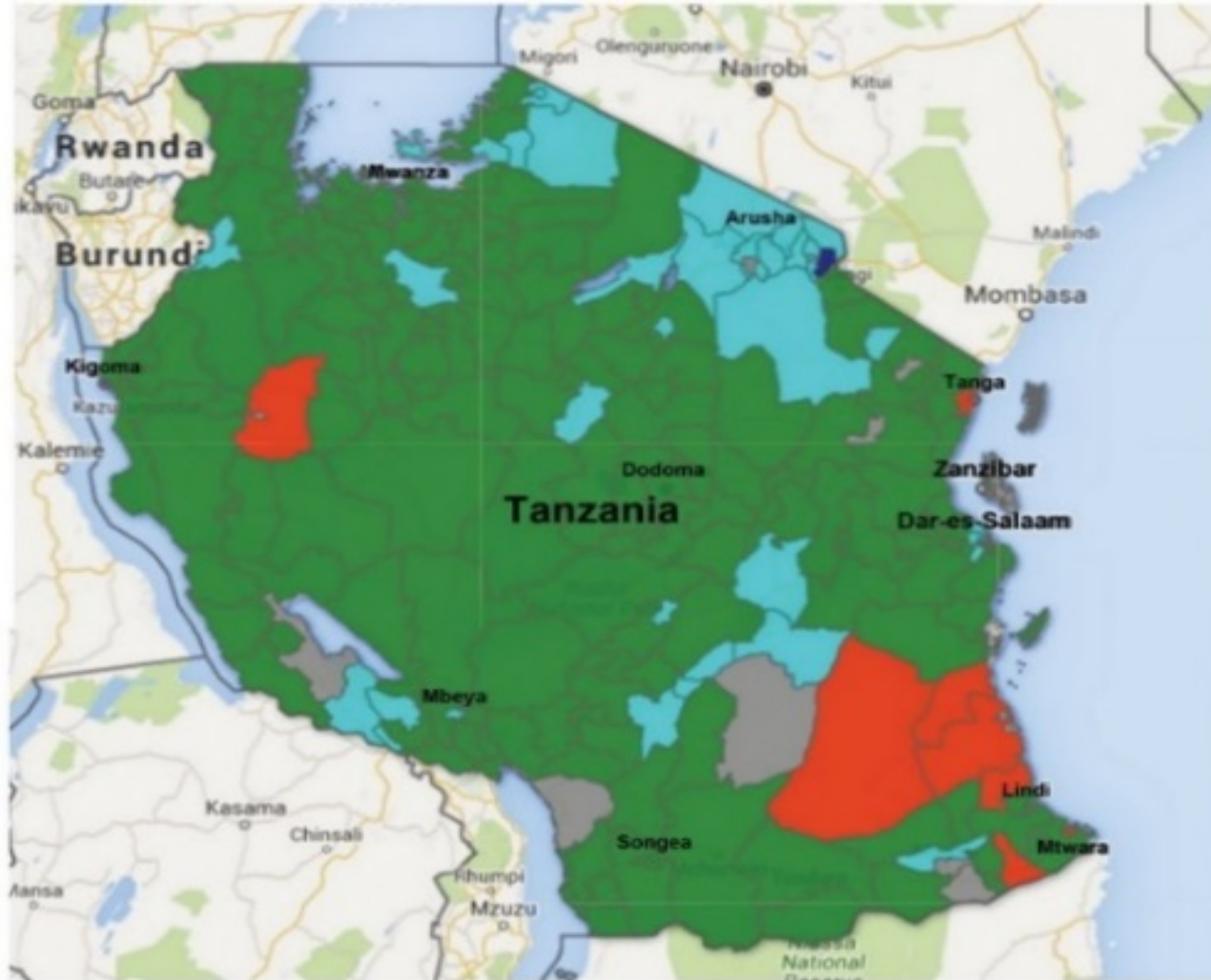
87%VA, 200 est

Window of opportunity, and recent challenges...

Tanzania faces a window of opportunity for addressing corruption in the country and unlock its growth potential towards structural transformation

1. **A political settlement in flux:** Dramatic acceleration in the fight against corruption combined with pragmatic and deal-making approach of the new leadership, is opening new forms of dialogue between the public and private sectors and potentially reshaping the growth-governance relationship.
2. **Combination of vertical and horizontal anti-corruption strategies:** For recent progress in anti-corruption to be sustainable, sector-specific and incremental anti-corruption reforms need to be embedded in institutions and target specific processes, deliver pragmatic solutions and tangible results (quickly, risk of running out of time towards 2019 turning point), while opening new spaces for productive investments and diversification.
3. **Structural transformation for sustained and inclusive growth:** The achievement of these development outcomes in anticorruption is a critical ingredient in sustaining Tanzanian efforts towards its structural transformation

2015 Election: Taking back control of corruption



Dar-es-Salaam (detail)

Colour	Party
Green	CCM
Light Blue	Chadema
Orange	CUF
Dark Blue	NCCR Mageuzi
Purple	ACT
Grey	Unknown

CCM
Magufuli (58.5%)

The evolution of the political settlement: the long term view and some recent developments

- The Nyerere developmental state and the deep roots of clientelistic networks in Tanzania (1961-1985)
- Privatisation, multi-partitism and corruption: the weakening of the dominant party under Mwinyi (1985-1995)
- The Mkapa reforms and the response to corruption of a weak dominant party (1995-2005)
- Grand corruption and competitive clientelism under Kikwete (2005-2015)
- The “bulldozer” or the “builder”? The vulnerability of the authoritarian coalition and the potential developmental state under Magufuli

A political settlement in flux: bulldozer or builder?

- Bulldozing the political settlement: The first phase (until late 2016) of the new government was characterised by:
 - a strong move to **centralise power around the President**;
 - A confrontational and **authoritarian approach towards the private sector**;
 - an increasing pressure on the opposition and media.
 - This approach suggests a political settlement characterised by an **authoritarian government** that is **vulnerable to losing power**, and seeks to strengthen its control over its own supporters (internal political factions and “regional lords”) and opposition by
- **breaking consolidated clientelistic networks**
- using **repression of the media and opposition’s** political space (in particular its regional rooting – CCM comparative advantage)

A political settlement in flux: bulldozer or builder?

- Building a new political settlement? More recently a shift towards:
 - institutionalisation of power within CCM, and coalition building;
 - disciplining the corrupt distribution of resources with a “**pragmatic approach**”, including **direct involvement in deal-making and investments** (although **without articulated policy framework**);
 - continued systematic repression of the oppositions and the media.
 - A subtly different political settlement, one where
- authoritarianism is balanced by **weakened opposition** and **strong top-down control over the party and government apparatus**
- government **attempts to re-allocate rents and establish new terms of engagement and procurement** (mining, power, infrastructure...) and different private sector responses (new forms of dialogue, uncertainty, ...)

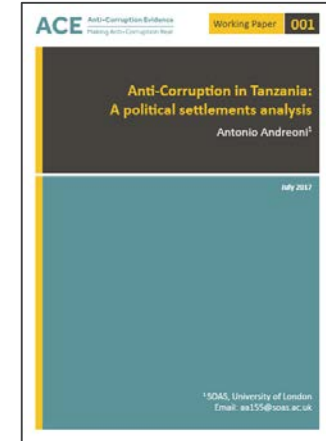
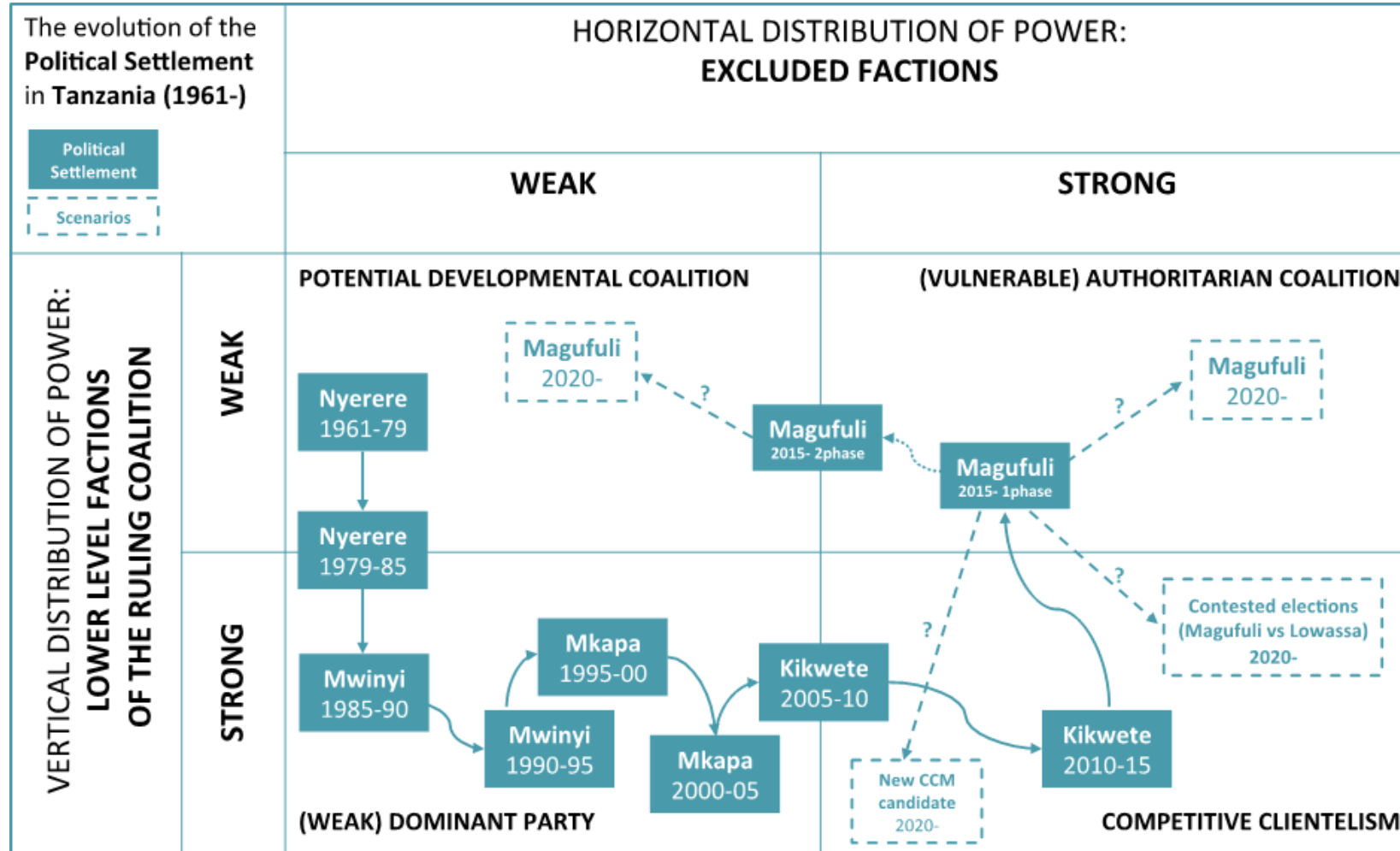
Deal-making approach: cases

- In October 2016 inauguration of a \$120 million fruit processing factory in the outskirts of Dar es Salaam (Bakhresa)
- In December 2016 deal with Dangote which led to the re-opening of the biggest cement factory in the country
- In January 2017, concessional loan (from Turkey) for the construction of a 400 kilometre-stretch of the envisaged 1,200 kilometre standard-gauge central railway
- 2018 Sugar licencing allocation to 4 major sugar producers

...Other cases

- Signalling willingness to allocate rents, but also discipline them
- Requesting businesses who cumulated capital (also thanks to their political connections / rents capture) to invest them in new industries

The evolution of the political settlement: forecasting political settlement trajectories in 2017



What anti-corruption approach?

So far the anti-corruption agenda has relied mainly on vertical efforts:

- **Rule by fear:** blaming and shaming allegedly corrupt people in both the public and private sector and direct involvement in anti-corruption operations, backed by the police and the intelligence.
- **Punishment:** removing people from key positions in public offices and authorities, and prosecution enforcement (also in the form of ultimatums and amnesty agreements).
- **Centralisation:** reducing potential resource leakages from the centre to the regions/districts by direct allocation of resources (e.g. fertilizers, education) and centralisation in the President's Office of resource allocation functions (e.g. sugar import licence)

> Vertical forms of enforcement of the rule of law

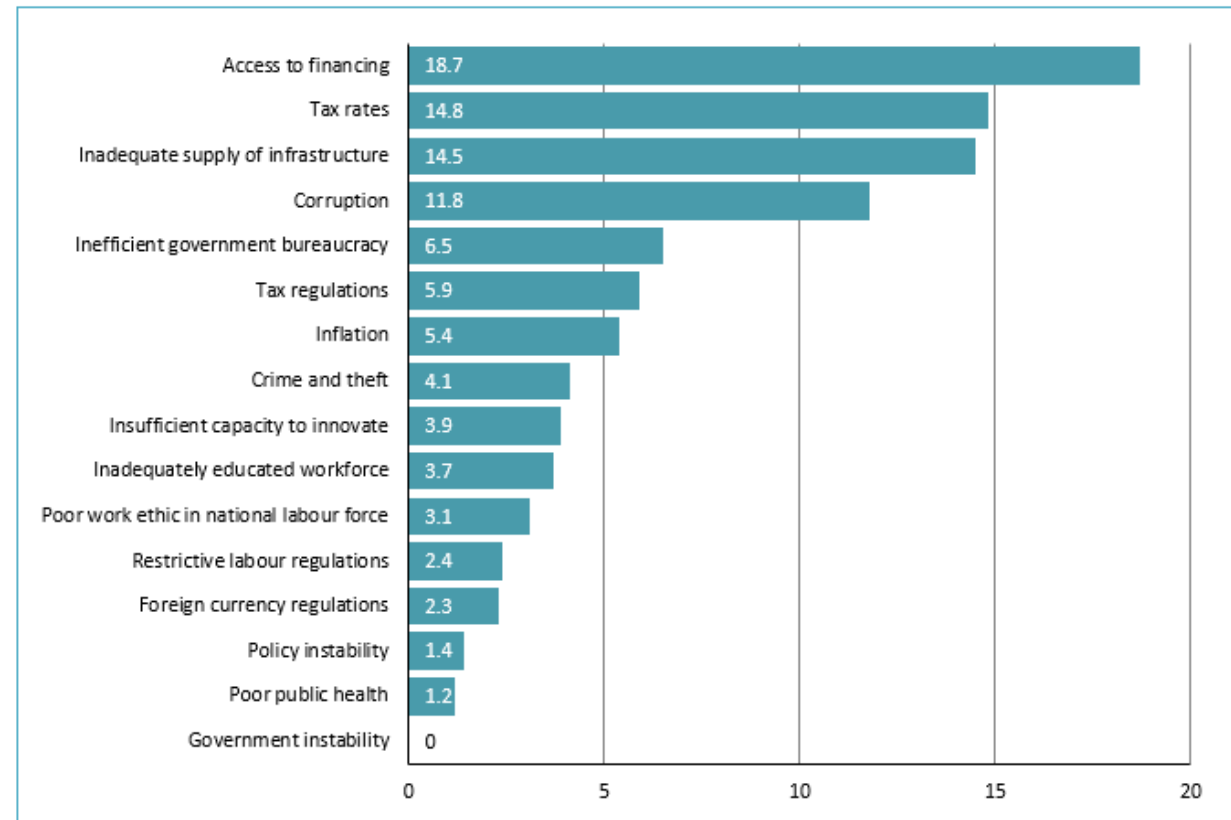
While the evidence is still scattered, vertical anti-corruption strategies may have achieved some results.

Is this anti-corruption approach sustainable?

However, there are reasons for concern about the sustainability of vertical strategies and their effectiveness in terms of outcomes.

- Vertical anti-corruption efforts are mainly attacking the manifestations of corruption created (and enabled) by a much more diffuse and diversified set of processes, unfolding in different sectors.

Figure 2: Most problematic factors for doing business in Tanzania, 2015



Source: Executive Opinion Survey (World Economic Forum 2016)

Opportunity of horizontal anti-corruption strategies for Tanzania

- Combining vertical and horizontal anti-corruption strategies (ACE Approach) increases the chances of delivering better development outcomes and make anti-corruption efforts more sustainable (avoidance of resistance/backfire) because:
 - take into account the existing **political settlement** (*feasibility*)
 - target incremental changes by addressing *different and specific types of corruption* processes in each sector
 - provide powerful organisations in the sector with **alternative ways to generate income or coordinate activities in their own interest** (e.g. open new opportunities for productive investments in the private sector) beyond existing corruption practices
- It **ALSO** offers an opportunity to shift from a risky vulnerable authoritarian political settlement to a more effective developmental state able to deliver development outcomes in a sustainable manner

Sector by sector...



Employment promotion challenges in African countries

SKILLS

- **Supply/institutional problem:**

- Limited availability of a skilled workforce, especially vocational skills
- Limited presence of high quality VET institutions/programmes (although some pockets of excellence), and political economy challenges in the skills sector (along all the chain, vulnerability to rents capture and lack of accountability)

- **Demand/firm level problem:**

- Limited number of competitive firms capable of organizing and deploying skills effectively, thus limited impact of skills on productivity and limited incentive in hiring skilled workers (and wages premium)
- Limited number of competitive firms able to identify the specific type of skills they require to adopt new production models and technologies

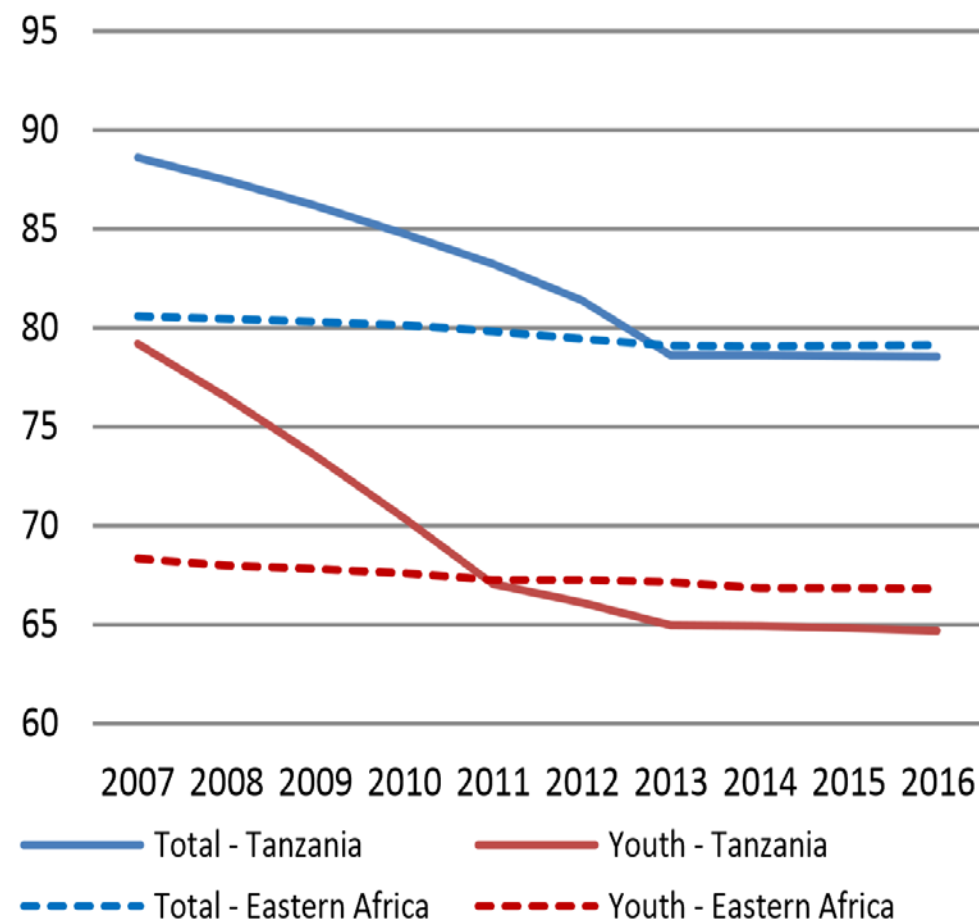
- **Demand/economic structure problem:**

- The production base of the economy is small (few companies) and disarticulated (few local supply chains and over dependence on imports – underdeveloped LPS)
- The industrial structure is also dualist – i.e. a few big, many small and very few medium size firms (so called missing middle)

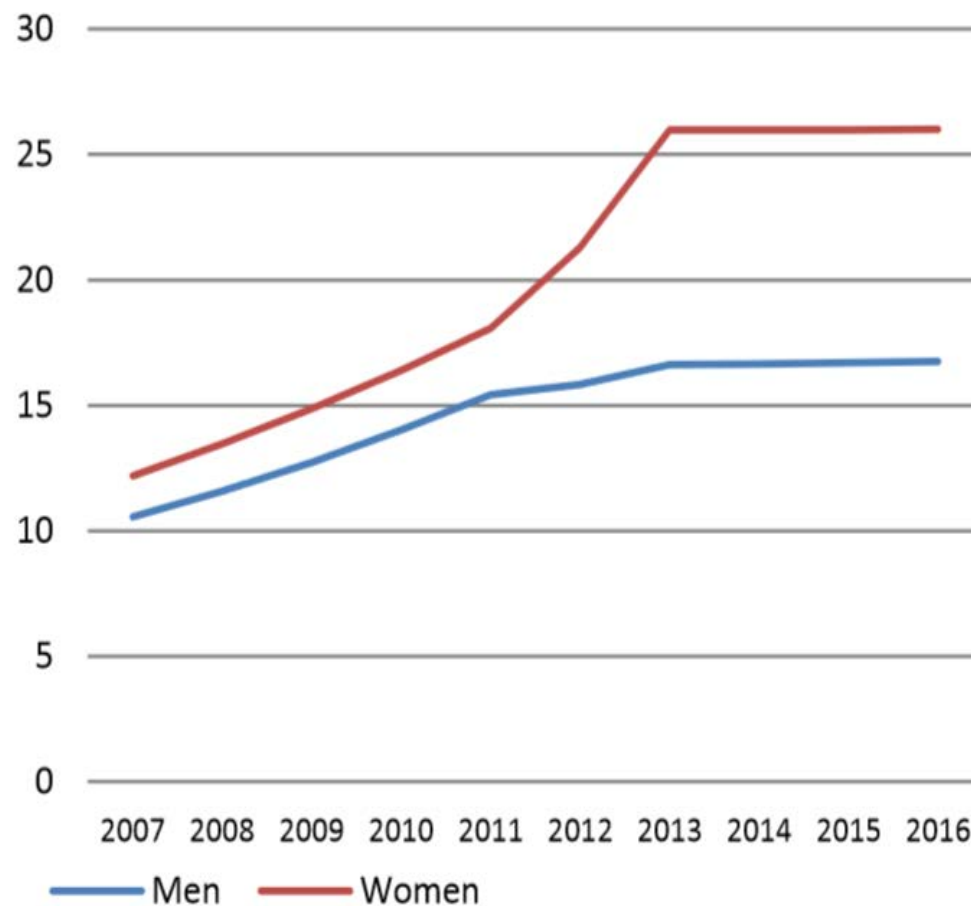
Labour force employment and inactivity trends 2007-2016: Tanzania and East Africa

SKILLS

Labour force employment (Tanzania and East Africa)



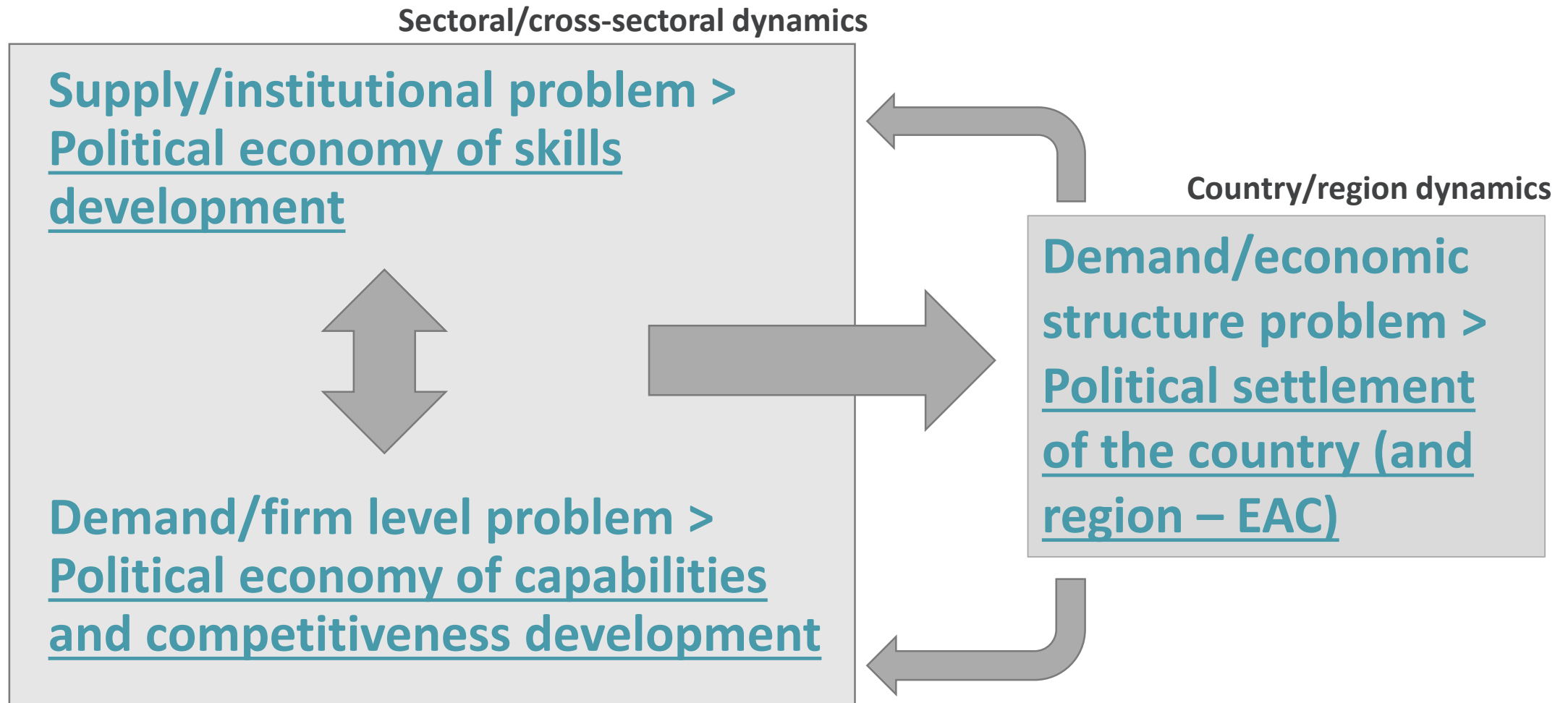
Inactivity trends in Tanzania (male and female)



Source: LO/FTF 2016, ILO data

Specific and interrelated political economy issues (and cumulative dynamics): what feasible strategies?

SKILLS



Supply/institutional problem: The political economy of skills development in Tanzania



SKILLS

- **Financing models**

- Skills levies on firms, between 1-2% (Kenya, South Africa, Tanzania 4.5%, ...)
- Financing burden and unintended consequences (formal employment disincentives, fixed costs, frequency, difficult especially for SMEs...)
- System vulnerabilities from collection to allocation and use (rents capture opportunities along the chain involving firms, Pb & Pv providers, regional boards)

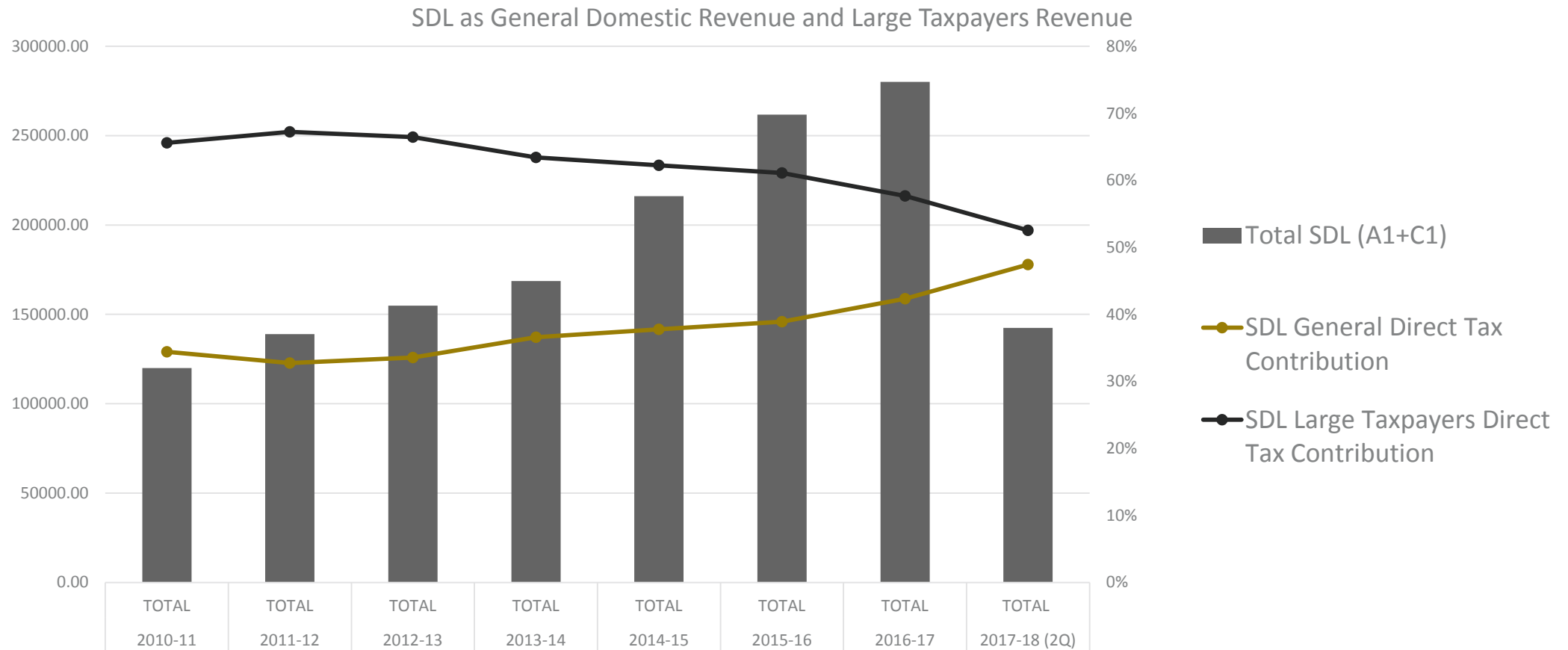
- **Institutional setting and Governance models**

- Authorities (often) operating as both regulators and provider and limited accountability of providers (public VET distributed, private providers)
- National VET systems are fluid/diverse: numerous informal practices with mixed effects
- Given limited accountability, private-public sector mistrust and firms 'exit' option

- **Outcome and quality**

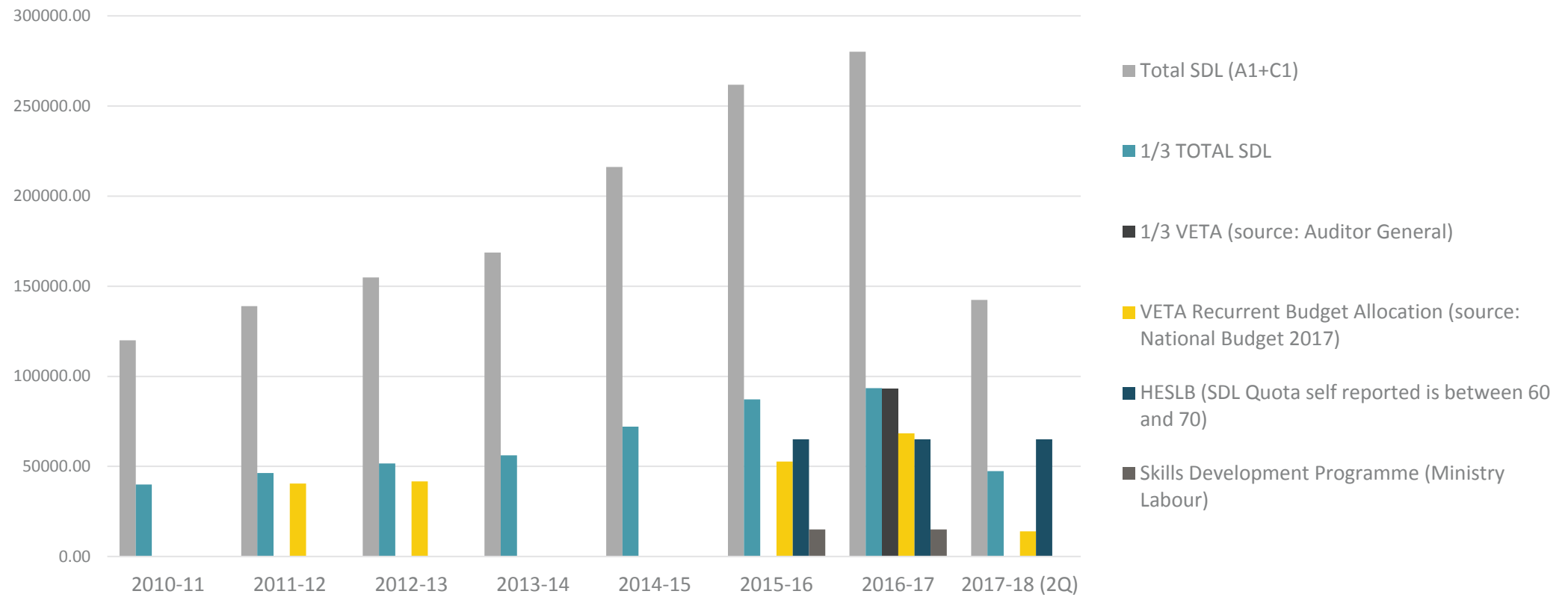
- Double goals and trade offs: youth inclusion and sector specific high quality training
- Resistances in curricula reforms and emphasis on certification more than employability among VET institutions
- Difficulties in involving private companies (perceived as double burden and cost/risk e.g. Uganda)
- Limited accountability (and 'voice') of the users

Supply/institutional problem: Incentives structure around financing



Source: Andreoni, 2018, based on TRA data

Supply/institutional problem: Incentives structure around financing



Source: Andreoni, 2018, based on TRA data and other sources

Supply/institutional problem: Incentive structure around quality & outcome

Training types (courses)	Long	Short
VETA-owned Average Ratios	53%	47%
Private VET Average Ratios	80%	20%



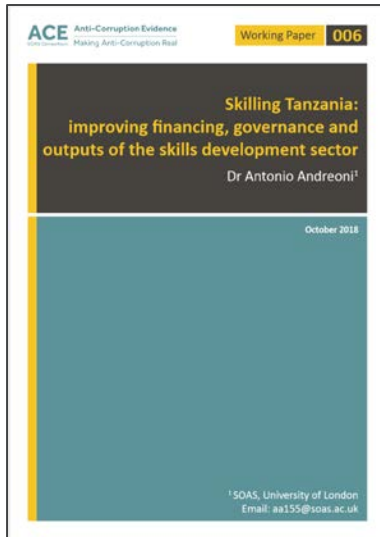
Demand/firm level problem: The political economy of capabilities and competitiveness development

SKILLS

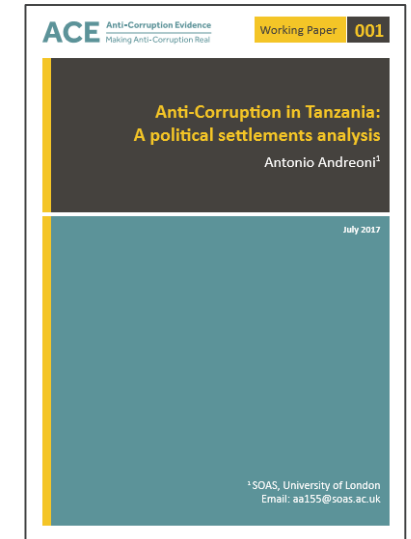
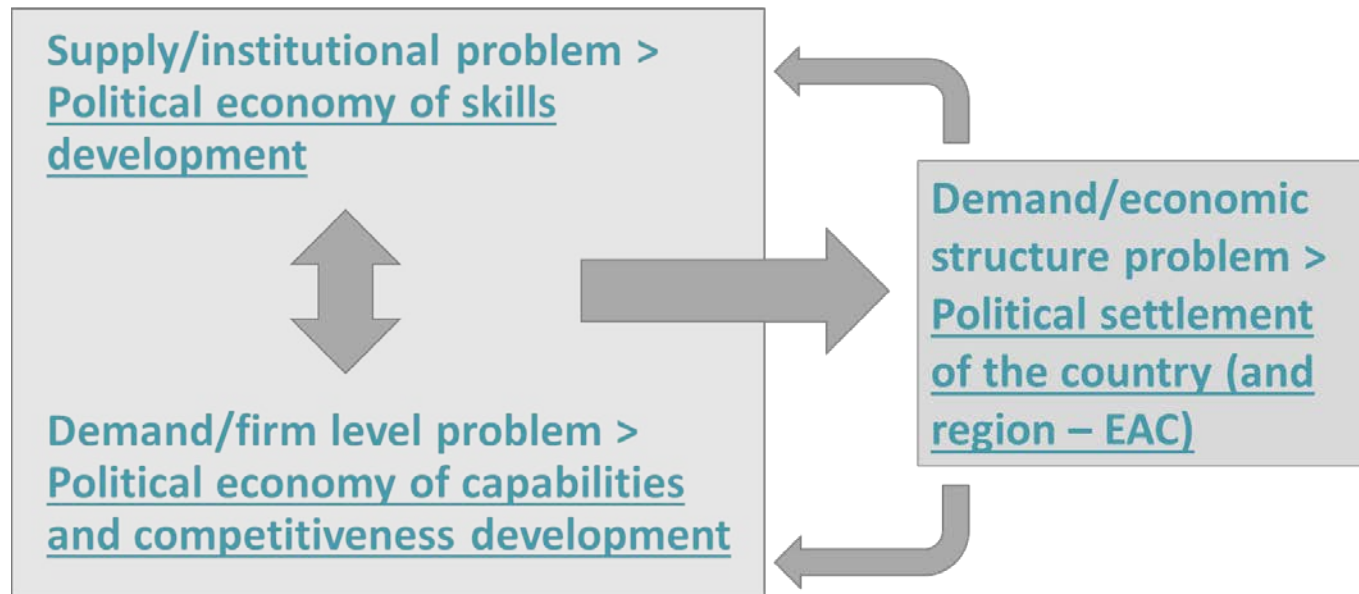
- **Majority of firms tend to be politically (not production) competitive (yet)**
 - Political connections and rents capture allow companies (and sometimes conglomerates) to operate in the economy (specific sectoral and value chain specialisation)
 - Rents opportunities more than production/market opportunities guide firms investments, as a result limited organisational capabilities for enhancing productivity and deploying skilled labour effectively
 - Dual industrial structure: A few firms control entire sectors and export activities
- **Challenges in involving companies, despite various strategies and some successes**
 - Rebate systems (Kenya, Uganda, South Africa, not in Tanzania fully/yet)
 - Identification of firms for on the job training and employability incentives is challenging
 - Risk of opportunistic engagements in skills programmes with limited employability results
 - Sectoral councils (difficult with few companies, risk of capture and limited additionality)
 - Sector-ringfenced funding (South Africa), but risk of negative impact on nascent sectors
 - PPP models have been successful in some cases, but difficult to scale up (e.g. IMTT Moshi Centre in Tanzania)
 - Opportunities for sector-specific training and cross-sectoral spillovers
 - Limited offer of combined support of companies in organisational capabilities development (agro-mfg extension services, intermediate technology institutions,)

ACE Feasible Strategies in the skills sector in Tanzania: Realigning incentives and designing for differences

SKILLS



Understanding the sectoral incentive structure



**Discreet Choice
Experiment (DCE)
and
Firm Level (300+
Stratified Sample)
Capability
Assessment**

(ongoing in Tanzania)

Tailoring feasible strategies for different types of firms

Port and smuggling: Why? What impact?

PORT &
CUSTOMS

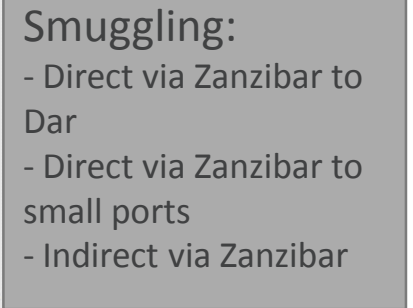
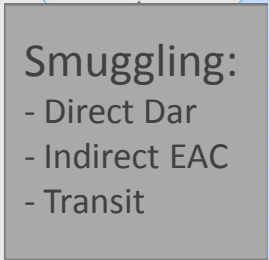
- **The centrality of the Dar es Salaam Port for the Tanzanian economy (of corruption)**
- **Port/Import licensing as critical in the political economy of Tanzania**
 - Department for Disaster Management /PMO: the management of pricing and scarcity
 - Import licensing and export bans as KEY political tools in distorting the internal (across regions) and regional markets across EAC custom union/common market (e.g. bans of grains exports)
 - CET revisions (SI and exemptions) and the Zanzibar political economy of dumping – within the URT or an external player?
 - sugar and rice in particular, with large constituencies involved along sectoral value chains, from farmers to producers, to distributors/traders.

Port and smuggling: Why? What impact?

PORT &
CUSTOMS

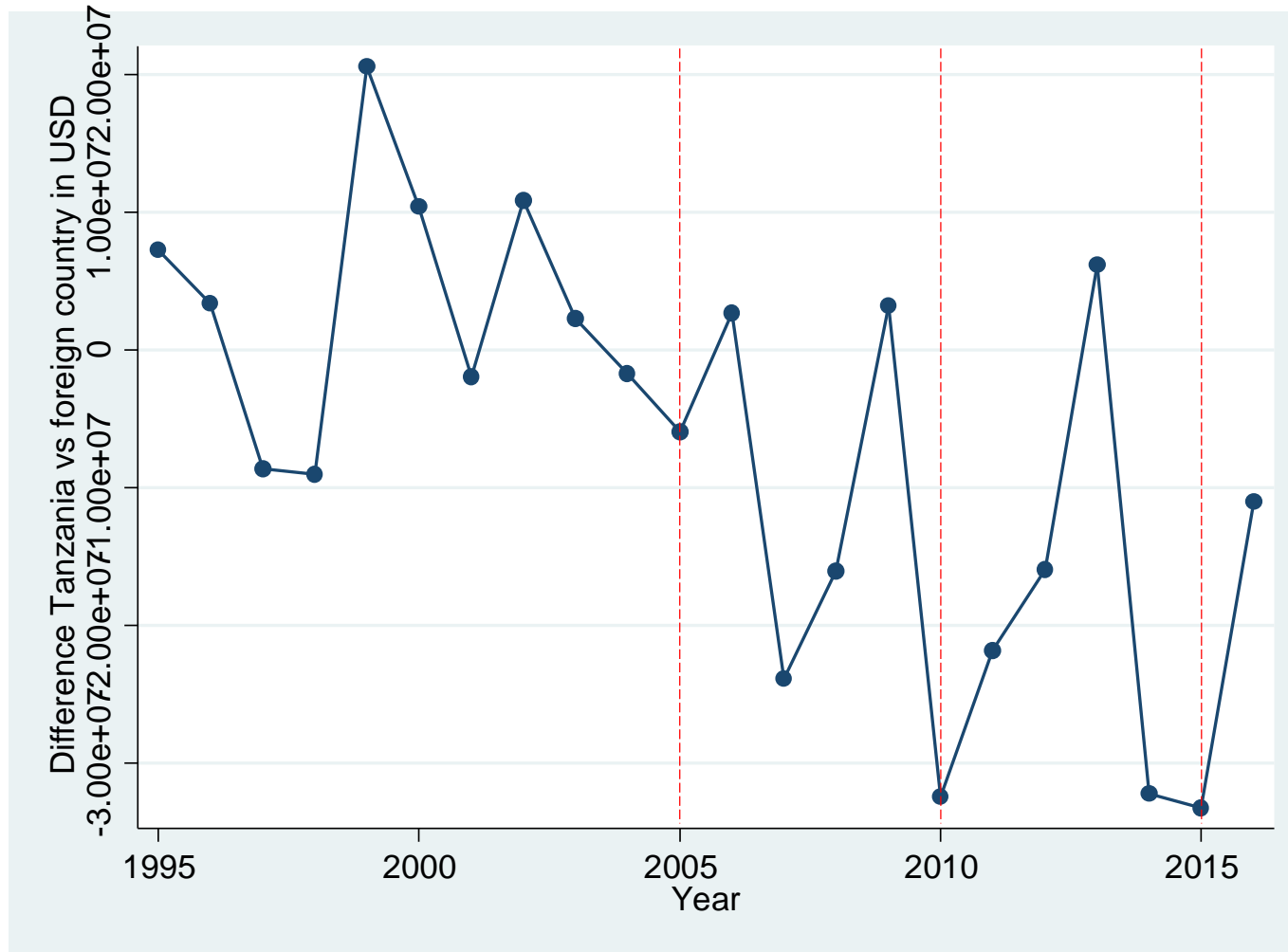
- The centrality of the Dar es Salaam Port for the Tanzanian economy (of corruption)
- Port/Smuggling as critical for rents capture: businesses developed sophisticated ways to
 - Misinvoicing
 - Trade/smuggling collusion
 - Manipulating EAC CET (industrial sugar for domestic use; Pakistan-Kenya bilateral on rice)
 - Distorting procurement (ships waiting for a call, delivering in 2 days from Brazil!)
- **Smuggling affecting domestic production negatively**
 - strong disincentive to invest
 - unfair price practices and farmers squeezing
 - Limited production capacity utilization among domestic producers with an impact on productivity and price competitiveness
 - De-industrialization (factories transformed in warehouses)

PORT & CUSTOMS



Sugar underreporting (mirror statistics)

PORT &
CUSTOMS



Key countries accounting for underreporting are:

Saudi Arabia, United Arab Emirates, Thailand, India, Brazil, Morocco, Egypt, Algeria

Trade in sugar between those countries and TZN amounts to 71%.

About the Anti-Corruption Evidence Research Consortium

Funded by UK aid, ACE is a partnership of highly experienced research and policy institutes, led by SOAS, University of London:

- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium, London
- University of Birmingham
- University of Columbia, New York
- BRAC Institute of Governance and Development (BIGD), Dhaka
- Transparency International Bangladesh (TIB), Dhaka
- James P. Grant School of Public Health BRAC University (JPGSPH), Dhaka
- Research on Poverty Alleviation (REPOA), Dar es Salaam
- Economic and Social Research Foundation (ESRF), Dar es Salaam
- Ifakara Health Institute (IHI), Dar es Salaam
- Centre for Democracy and Development (CDD), Abuja
- Health Policy Research Group, University of Nigeria

The evolution of the political settlement: 2018 and the approaching of the new elections... fighting internal contestation and delivering development outcomes

