CORRUPTION IN TANZANIA
Issues, Evidence and Development Challenges

By

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Paper Abstract

The paper is about Corruption in Tanzania, looking at the issues and evidence, and the challenges it poses to development. It also proposes the way out. The paper is in four sections, and the major findings and conclusions are summarized by section as follows:

Corruption is said to exist when an individual illicitly puts personal interests above those of the office or principles/ideals he is expected to serve. *In general use the corruption disease includes many strains and mutations: examples include illegal political contributions, sharing or selling secret or confidential information, police corruption, kickbacks to procurement officers, fraud in quality control, etc. It may be internal, like when the practices involve actors within an organization, or external, like in the typical cases involving 'agents' and 'clients'.*

*Two analytical approaches to corruption are discussed, one using the standard 'economics of crime' model and the other using the 'principal-agent-client' framework. In the latter, typical, case the overriding verdict is that illicit activities will be greater when agents have monopoly power over clients, agents enjoy discretion, and accountability is poor. Clients will be most willing to pay bribes when they reap monopoly rents from the services provided by the agents. The Principal (government) will have to analyze the extent of corruption, assess its costs and possible benefits, and then undertake (costly) corrective measures up to the point where the marginal benefits in terms of reduced corruption match the marginal costs of the corrective measures. It is noted that **the optimal level of corruption is typically positive.***

The case of Tanzania shows some patterns with regard to corruption, as summarized in the Warioba Report and elsewhere: rampant corruption in all sectors, involving both big and small bribers and receivers of bribes. **In the mid 1970s corruption was mainly involving small receivers keen on supplementing incomes and small givers paying the rent created by regulations and shortages. Today corruption involves also top leaders and big business. The main reasons for the large extent in recent years have been laxity in leadership amidst greed and cut-throat competition in business, lack of transparency, and emergence of conspicuous consumption.**

Checking corruption involves a menu of six approaches: cleaning the leadership; selecting agents for honesty, integrity and capability; changing the rewards and penalties; maximizing chances of detecting corrupt behaviour; restructuring the relationships of the major actors; and, changing attitudes about corruption. The Warioba Report Recommendations for fighting corruption in Tanzania are subsumed in the menu above: **systemic changes in leadership, in ethics and ways of doing business, in structures charged with administering justice and public finances, and in incentive systems for business and individuals.**

Section One: Introduction and Overview

Introduction About the Paper:

This study is about Corruption as one of the major economic crimes. It is in four sections, including this introduction. In this first section various notions, definitions and characterizations of corruption in general and as understood in the Economics Literature, are discussed, followed by an outline framework of analysis of corruption as a crime, again using nomenclature and framework used in economics and in related sciences, in section two. This is followed by a discussion of the case study of Tanzania in the third section. The final section (section four) is about the challenges that corruption poses for the development effort of Tanzania, and the needed 'next steps' to contain it.

Corruption as a Concept:

Corruption is said to exist when an individual illicitly puts personal interests above those of the office or principles/ideals he is expected to serve. In general use the corruption disease includes many strains and mutations: examples include illegal political contributions, sharing or selling secret or confidential information, police corruption, kickbacks to procurement officers, fraud in quality control, etc.

In the Webster 3rd New International Dictionary (unabridged) corruption is defined as "inducement (of a political official) by means of improper considerations (as bribery) to commit a violation of duty". In common usage the definition reads "behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status-gains; or violates rules against the exercise of certain types of private-regarding behaviour." In modern use, and in view of various 'controversies' as to what actually constitutes a corrupt behaviour, are various issue-or-context specific definitions reflecting four different variants: of the advanced moralists, of the law as written, of the law as enforced in the specific context, and of common practice. So, generally, there are distinctions between 'bribes', allowable 'reciprocity' or allowable 'transaction' costs/considerations. Indeed, the two variants of the definition in Webster's New Collegiate Dictionary which are, respectively, "inducement to wrong by bribery or other unlawful or improper means" and "impairment of integrity, virtue, or moral principle", are such that one focuses on (possibly) quantifiable and/or economic dimension (the first one) whereas the other concerns more moral attributes (integrity, virtue, more than just the 'inducement' part). Government corruption refers to the sale by government officials of government property for personal gain. A related concept is that of rent-seeking which refers to the use of resources to obtain politically and/or artificially created rents and transfers (common in repressed or grossly regulated economies).

In typical government offices and official agencies the following are some examples of corruption cases.

External corruption:

Payment for licit services so as to speed up processes such as for clearance, permit, to obtain a statement or a record (use of speed money to "oil" the machinery so it "runs smoother and faster") that would otherwise be free.

Extortion, as in 'slapping' big fines, large tax assessment, outright threats, etc. These can be appealed against but the cost of time and information necessary to get a 'fair' deal may be large and so the 'client' simply pays.

Payment for illicit services so as to reduce cost; such as bribing officials so they assess lower taxes, bribing tax collectors so they 'clear for tax purposes' lower or falsified returns, non-receipted pay which is charged less than a higher 'tax-inclusive' receipted deal, with the difference being split between the collector and the client.

Internal corruption:

Falsification of records to embezzle funds. Low amounts are reported and submitted to the office relative to the actual collections (tax, non-receipted contributions, sales, etc), with the difference being pocketed by the agent or collector.

Overprinting of labels, tickets, stamps, permits and forms that are charged, but which would go unreported to officials. Sales from such oversupply of permits or tickets are pocketed by the agents.

Delaying remittances: collections made would remain as "float money" with the agents, and can possibly earn some interest in short term deposits

Corrupting the internal security systems in charge of investigations so they sit on cases, delay investigation or even dismiss complaints after sufficiently reasonable time has passed to 'settle the dust'

Personnel scams and nepotism within organizations that sell choice positions and titles, or which involve some kickbacks on how to even know about, let alone get, jobs in an organization.

The examples above suggest that corruption can come BIG when big business and national or international politics are involved, or be a matter of simple procedures, and correspondingly small in scale

We follow up the issue here from the dimension of economics

Section Two: Corruption as Crime: Analytical Framework

Two major approaches to the analysis of unlawful and corrupt behaviour in economics are notable: the standard "Economics of Crime and Criminal Behaviour" Modelling and the "Principal-Agent-Client" Framework. These are discussed briefly below:

2.1 Economic Analysis of Crime and Criminal Behaviour

Recent economic approach to crime as a topic of contemporary economic interest dates back to the late 1960s with the pioneering work of Becker (1968). In the early formulation the main preoccupation was to give an economic explanation and analysis towards crime, with reference to the costs and benefits of offences, the costs and benefits of apprehension and conviction, and the costs and benefits of punishment (fines, imprisonment, etc.). In more recent years many empirical and theoretical studies have extended the analysis to more specific types of crimes, including Corruption.

The analysis considers crime as a resource allocation choice (wealth or time allocation). The economic choice involved is that if the benefits associated with a choice (illegal activity included) outweigh the costs then resources are bound to be invested in this choice. The simple case includes an investment choice problem where opportunities present themselves in an (otherwise illegal) activity to a 'criminal'. On the other hand the role of the Government is also modelled out explicitly to capture the activity of minimizing crime through making such opportunities costly to the potential criminal. Notable in the framework for empirical work is that in view of the interdependencies among the various actors in the 'industry' specific statistical and research methodologies (mainly 'system analyses and frameworks') present themselves for purpose of investigation, analysis, forecasting and policy recommendations.

The Individual 'Criminal':

An individual is assumed to be endowed with a resource like wealth, income or time, and faces the problem of deciding on the share of this resource to invest in a criminal activity. Gains, from successful activities, and losses, from being caught etc., are involved in this 'investment'. We let the gains be represented by a "Benefits Function", which depends on the share of the resource invested in the criminal activity. Some reasonable characteristics of such function include (a) gains are positive for a positive share of the resource used, and (b) gains from illegal activity increase as the share of the resource used in its pursuit increases.

Analogous to this is the "Loss of Penalty Function" in the not-unlikely event that criminal activity is not successful. This function is also assumed to be a positive function of the share of resource invested in illegal activity, and it increases as the share increases.

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There is no a-priori reason to assume the relative magnitudes of the two functions; the Benefits Function and the Penalty Function, and it is possible for either of the two to be larger than the other.

In modelling exercises the following is further done: that a "Total Income" measure is given to incorporate the Benefit and the Penalty Functions, and a probability is given for success/failure in criminal activity. The optimization problem for the prospective investor is that of maximizing Expected Utility from investing in a criminal activity (other things equal), via a choice of an appropriate share of his resources to invest in it. The first order conditions for the optimization program show the following (a) that the equilibrium share of the resource devoted to criminal activity responds positively to an increase in Total Income, and (b) that the equilibrium share of the resource devoted to criminal activity responds negatively to increases in the probability of failure in criminal activity. Thus typically a high Penalty Function is associated with a low Expected Utility of criminal activity and a high Probability of Failure in the activity is also associated with a low Expected Utility of criminal activity.

The Policy Implications of this may appear straightforward: hire more police, crime investigators and guards, make 'crackdown' a permanent job, etc (to increase the probability of crime failure), build harsher legal and prison systems, increase the level of the minimum fines/prison terms, etc (to raise the Penalty Function). However, these policy options are not costless. Just as there is a social cost from criminal activity there is also a social cost to deterring or preventing crime; hence the existence of the other main Actor in the crime industry, the Government, through the Criminal Justice System (CJS).

The Government

The government weighs the costs and benefits of crime prevention or deterrence, and will choose expenditures or resources for law enforcement to enhance the probability of failure of crime, and the penalties for offences, such that the social costs from criminal activity is at a minimum. The costs include (a) the actual destruction from crime (loss in government revenue for a tax evasion on corrupt 'transaction', destruction of assets, etc); which in general depends on how widespread the crime is, that is, the number and intensity of crimes, (b) the cost of seeking and catching a criminal (resources to the CID, 'reciprocity or consideration' to 'informers', etc); which is itself a function of the number and intensity of such crimes and the probability of catching and convicting criminals (the latter depending on the investment in law enforcement infrastructure and in the CJS generally), and (c) the cost of punishment; which includes the cost of running prison and probation systems, rehabilitation centres, costs of deportation, surveillance, etc. This cost depends on the number and intensity of crimes, the nature of the penalty for the crime and the probability of conviction of the 'caught criminals'.

The Social Loss Function, thus has, as its arguments, the actual destruction from crime, the cost of apprehension and conviction, and the cost of administration of the punishment. The government will seek to minimize this function. Again, as for the individual criminal's optimization programme, the problem is to seek an optimal investment (in resources) to

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reach a particular probability of catching and convicting criminals, and the optimal penalty, so as to minimize the Social Loss Function.

A Short Digression:

What the background economic theory of crime reveals is two-way causation between the crime industry and the government institutions. For the potential criminal the choice of resource share to go into illegal investments will depend on the Expected Utility from such activity which in turn depends on the probability of being caught and convicted, the benefits from the activity, and the penalty. The crime rate will largely depend on, among other factors, the probability of failure in crime and the harshness of the law enforcement mechanism. The government, on the other hand, will be seeking to minimize the social cost from the crime industry by appropriate choices of the deterrence mechanism and the appropriate 'handles' that enhance the possibility of crime industry failures.

From this discussion it is clear that there is no a-priori conclusion that the optimum crime rate is zero (generally **the optimal crime rate is positive**).

Empirical studies reported in the literature are typically from developed countries where data are readily compiled and analyzable. Common methodologies involve simultaneous systems approaches to capture the two-way causation, and in such studies the typical crime deterrence variables used have been the arrest rates, the conviction rates, the length of prison terms, the prison-probation term combinations, and the average fines for the offences. Four variables appear to be critical as dependent variables (to be jointly explained in the models as the jointly endogenous variables); the rate of crime (number of reported crimes in total 'potential criminal' population), the rate of apprehension (number of arrests in all reported crimes), the rate of conviction (total 'guilty' convictions in total court criminal cases or in total reported crimes), and the harshness of the punishment (average prison term or average fine imposed for the crime).

It is easy to note that this general approach to dealing with crime can be invoked in the discussion on Corruption with just little modification.

2.2 The Principals-Agents-Clients Framework

The principal-agent-client framework is as follows: a Principal, like the government, employs an agent, like the tax collector, who interacts on behalf of the Principal with a client, like the business income tax payer. An agent will be corrupt when in his judgment his likely benefits from doing so outweigh the likely costs. Similarly, a client will engage in bribery when the benefits to him outweigh the costs. If the agent is not corrupt he will receive a payoff that is his regular pay (plus the **moral satisfaction** of not being a corrupt person). If he is corrupt he gets the bribe and his regular pay (but also suffers **moral cost** of being corrupt). Moreover, he may be caught, because corruption is a crime, in which case there may be a penalty that costs him his regular pay or more, his job, disgrace to his name, etc. If the morality of the issue can also have a monetary imputation, the decision to be corrupt will be positive if "the bribe minus the moral cost minus {(the probability of being

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caught and punished) times (the penalty for being corrupt)} is greater than the regular pay plus the moral satisfaction he gets from not being corrupt.

When the agent is corrupt he receives private benefits but generates costs or negative externalities for the principal. It will thus be in the interest of the principal to induce the agent to undertake the optimal degree of productive activity and the optimal degree of corrupt activity, but working on asymmetric information. He has to set the agent's pay and penalties without knowledge of the agent's marginal productivity and externality-generating behaviour. Seeking the perfect knowledge will be costly in itself. A similar analysis can be done for the principal's problem vis-à-vis the client, whereby the principal would like to structure the rewards and penalties for corrupt behaviour to induce the optimal level of good and bad activity by the client. Here, too, the principal faces imperfect and asymmetric information.

A typical typology of the principal-agent-client relationship, thus, runs in the following manner: the principal (P) enlists an agent (A) to provide service to the client (C) on his behalf. The agent, A, may have discretion over the service, and may use this discretion in an illicit manner for a personal gain. This harms the principal. Information about what A and C do is asymmetric, and it is expensive for the principal to overcome the asymmetry. Several conclusions can be drawn: like illicit activities will be greater when agents have monopoly power over clients, agents enjoy discretion, and accountability is poor. Clients will be most willing to pay bribes when they reap monopoly rents from the services provided by the agents. The Principal (government) will have to analyze the extent of various kinds of corruption, assess their costs and possible benefits, and then undertake (costly) corrective measures up to the point where the marginal benefits in terms of reduced corruption match the marginal costs of the corrective measures.

Again, even by this construction **the optimal level of corruption is typically positive.**

In more policy-oriented literature on corruption using the principal-agent-client framework some five clusters of measures are proposed for the principal: under the choice of the agents, the nature of rewards and penalties, the needed level of optimal information, restructuring the principal-agent-client relationships, and changing attitudes about corruption.

We return to these in section 4 below.

2.3 Corruption "Utils" (utility of corruption)

In the literature one finds various arguments that corruption can play a positively useful role, especially in developing countries, but under special conditions. The following are cited as examples (1) specific corrupt activities (as opposed to systemic corruption) helping to 'oil or grease the system' that otherwise is corroded and does not work smoothly, (2) helping to circumvent a wrong or inefficient economic policy, (3) to overcome limitations in undeveloped multiparty systems, and (4) to get around imperfections in organizational rules. In the economics arguments the following is notable: that corrupt payments introduce a kind of a market mechanism. In a system where goods and services are allocated by queue,

politics, random selection or merit, corruption may allocate goods according to willingness and ability to pay. Corruption in this case puts the goods and services in the hands of those who value them most and who can use them most effectively. This provides for efficient allocation in the economic sense, which s thus socially useful.

Corrupt payments, appointments and policies have been credited also with some political benefits, especially when used to foster political integration of otherwise fragmented societies. In the analytical literature some kinds of corruption are classified together with preferential quotas for various regions, ethnic groups, gender or parties. Public benefits are then spread, but not by resource allocation on the basis of merit or maximum social benefit but for political ends. Political machines facilitated, for instance, by Election Fund Committees may use luring methods to buy votes with promises of better delivery on acquiring political power. If such political machines do indeed secure political power in the end, and if they live up to their promises, this is claimed to result in 'social benefit', at which point the (corrupt) 'means' come to justify the 'ends'. In undeveloped competitive political systems, it is argued, the usually weak interest groups may have no option but to use graft and other corrupt means to achieve articulation and representation in the political processes, which, inturn, results in 'social good'. Such corruption is seen as a means to political participation and influence, particularly for the minorities and unrepresented.

In organizations that are fraught with bureaucratic procedures and low morale it is claimed that the organization stands to gain from tolerating some kind of employee corrupt activities that help to circumvent rules. Examples given include tolerating or not being too strict on limited thefts, embezzlement, misreporting of expenses, kickbacks and speed money as long as such activities "grease" the organization's wheels in an otherwise corrosive environment. The same can also be a mechanism to enhance real pay to workers that would otherwise have had to come directly from the company accounts. In such cases both the company and the workers gain, according to this approach.

The case of Tanzania is traced next.

Section Three: The Case of Tanzania

3.1 Developments in Policy Since Independence

Developments in Tanzania (Mainland) since the early 1960s to the late 1990s are usually traceable with reference to some phases, characterized by rather unique economic policies: the pre-Arusha, the Arusha Era and the Post-Nyerere era (Mtatifikolo, 2000). The literature on corruption (and on illegal activities and the growth of the Subterranean Culture generally) suggests that particular forms of corruption are associated with particular socio-economic conditions in a society. In this vein it may be useful to thus superimpose the distinct development phases on the patterns observable on corruption in the country for each phase. In this subsection we briefly trace the phases, followed by a summary statement on the pattern of corruption revealed by the authoritative Warioba Report before we make a short synthesis in the last subsection of this section.

Economic Policies in the then Tanganyika for the period 1961 to 1966 relied on market forces, viewing private (both foreign and local) investments as a major instrument of growth. On foreign investment there was even open invitation, backed by legislation (The Foreign Investment (Protection) Act No. 40 of 1963). Various guarantees and incentives were given, namely, (1) full and fair compensation in the case of nationalization or other form of expropriation (2) repatriation of profits, interests and dividends (3) fiscal incentives in the form of tax and investment allowances and tariff protection for the "infant industries", and (4) control over organized labour via the legislation of 1964 which created the Tanganyika Labour Tribunal. Business was thus to be "fair and competitive", with the usual understanding that whatever corrupt business practices would be minor and amenable to control by the existing rules and regulations. During this pre-Arusha period the private sector did the bulk of economically productive work, even as the public sector was gradually coming into the picture

In 1967 Tanzania, through The Arusha Declaration, created the National Ideology of Socialism and Self Reliance. Conspicuous among the Objectives were the gradual creation of a dominant Public sector crowding out the private sector initiatives, and the evolution of a "Socialist" Incomes Policy. The economic content of the Declaration was the *intention to create an economic environment that would be both regulatory and promotional.* Promotional steps included (1) assurances that future private investment in the country would be safe and profitable (2) reassurances to the West and prospective investors of Tanzania's Non-Alignment Policy and (3) reassurances to foreign banks that Tanzania would borrow prudently

The **official practice**, though, was different. Indeed, in the two decades that followed the government increasingly became 'hostile' to private sector initiatives. The 1967 Nationalization Act created even more uncertainties, and the practices that followed with regard to the crowding out of the private sector meant that the sector was effectively being 'denied' a fair deal in Tanzania.

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The preeminence of the public sector, associated with the crowding out of the private sector, was to follow under the Arusha Declaration. The intensity of participation in the Economy by the public sector and the extent of regulatory mechanisms to facilitate its perceived long term role increased. It is worthy noting, however, that there were shifts within the public sector. Whereas government administration and services as a percentage of total public sector fell, that of public enterprises rose correspondingly. The major control and regulatory mechanisms were instituted gradually and it was after the first oil shocks (1973-74) that the squeeze on the private sector intensified.

The principal facilitating factor for the growth and dominance of the public sector was the coordinated and simultaneous policies and measures instituted in nationalization and creation of new "Commanding Heights". The main control mechanisms and policy instruments were the following: Central control of investment planning and restrictive codes on private domestic and foreign investments, Confinement policy in wholesale trade for some local and imported items, the Price Control System, the Compensation (wage and salary) controls, Credit rationing, Controls on interest rates, and Administrative allocation of foreign exchange.

These institutional controls and arrangements, created for purposes of strengthening the public sector, especially the public enterprises, may have worked against their designated role as follows: (a) Problems of inefficiency (due largely to managerial inadequacies, etc) and corruption (rent seeking resulting from confinement, credit rationing and administrative allocation of forex, etc); (b) low productivity and lack of motivation (inadequate compensation that affected morale); as well as (c) lack of accountability (due largely to protection by state as well as near-guarantees of continued budgetary subsidies). These have been documented sufficiently as resulting primarily from the same regulatory mechanisms that were meant to foster public sector's (especially public enterprises) sustained preeminence in the economy.

Three main areas characterize the response of the private sectors to the government's bias in favour of public enterprises, all coined as constituting a "refuge to the informal and semi-legal economy". Broadly defined this economy is created through production and transaction processes outside official regulatory and legal mechanisms.

a. Informal Financial Markets:

On informal financial markets two important features were revealed, namely, that several informal arrangements existed and continued to expand, and that, such borrowing and lending processes involved not only consumption spending but investment in business and production too. The extent (share) of informal financial markets in financing private sector grew during the period, as evidenced or proxied by the increased wedge between official exchange rate and parallel market rates for the convertible currency which the private sector was very much starved of.

b. The Subterranean Economy

It is called subterranean because it operates outside official regulatory systems and it may include illegal activities. Studies have revealed that this sector was less than 10% of official GDP prior to 1978 but grew to close to one third of GDP by the second half of the 1980s (Maliyamkono and Bagachwa, 1990, and Mtatifikolo, 1990). The refuge to informal sectors also put a significant premium on the value of forex, and this premium continued to rise faster, especially after 1979.

c. Compensation Packages for Workers

The socialist Incomes Policy had aimed at reducing inequality among individuals, between urban and rural areas and between high salaries and low wages. Over time real wages were seriously eroded due largely to inflation, resulting in low morale, low productivity and high absenteeism. The private sector, starved of skills and keen on productivity and efficiency, designed compensation mechanisms that could afford high net take home pay, while at the same time putting a low overall tax burden on recipients in an era of high direct taxes. Such mechanisms emphasized the cash and non cash benefits (not taxable) while marginalizing the role of the official wage, especially for higher talent that had to be "bought" from the public sector. The formal wage economy was thus seriously eroded.

The post-1985 adjustment processes to the early 1990s and the subsequent reform phase which is still on-going have reversed all the restrictive practices and controls by a dominant public sector through major reforms in the Parastatal sector , the Financial Sector, the Social Sectors, the Civil Service, and the 'real economy' sectors, namely, Agriculture, Industry and the Services (Mtatifikolo, 2000).

3.2 The Warioba Report

In December 1996 the Commission Report on the State of Corruption in Tanzania was released, reflecting a nine-months effort of intensive activity on the subject by the Presidential Commission. The Commission's Terms of Reference were exhaustive: from examination of the Laws, Regulations and Procedures to determine loopholes for corruption, and generating Recommendations to improve them, to strengthening capacity and cooperation of anti-corruption agencies. Other Terms included initiation of strategies and approaches to fight corruption and to examine and recommend on the Leadership Ethics Law of 1995 with a view to establish public confidence in the integrity of the Leadership.

The main finding of the Commission on the scope of corruption in Tanzania is summarized by the quote below:

There is no doubt that corruption is rampant in all sectors of the economy, public services and politics in the country. There is evidence that even some officers of Government Organs vested

with the responsibility of administration of justice namely the Department of National Security, the Police, the Judiciary and the Anti-Corruption Bureau are themselves immersed in corruption: instead of these organs being in the forefront of combating corruption, they have become part of the problem (Volume 1, ch. 2 para 12).

In the language of the Principal-Agent-Client framework given earlier the clients (givers of bribes) were listed out as belonging to two groups: rich businessmen who corrupt public servants and cause them to bend established laws, rules and regulations to further the businessmen's interests, and those who are forced to offer bribes by pressure from public servants in order to be served. The Commission saw the first group as the most dangerous since through their actions the executive structure of administration of justice and the national political and economic goals are derailed. On the other hand the Agents (receivers of bribes) were in two groups too: those who seek/solicit and receive bribes because of having low incomes and living standards, so that the bribes are some ways of bridging the income-expenditure gaps, and the high level leaders and senior public servants whose practices are not for meeting basic needs but excessive greed for money and wealth (practice called Grand Corruption). In day to day activities, and in the eyes of the ordinary citizen the first group was the most notorious and visible, and therefore what greatly bothered the ordinary people.

The listing of the kinds of corrupt practices where the main agents are 'small cats' and clients are the ordinary citizens reflect the existence of a highly controlled and rationed economy. They include such practices as bribes to secure admission in public schools (education sector), to be attended in public hospital (health sector), to get a driving license or travel permit (Home Affairs), and to facilitate movement of a Court File (the Judiciary). Other practices include bribes to get a low tax assessment (Finance), and to get a trade/business or transport license (Industry and Trade, Works, and Communication and Transport), among many others. On the other hand the grand corruption practices had examples like major tax exemptions for bribe considerations (Finance), allocation of 'hunting block' rights in protected areas for private gain (Natural Resources sector), favouritism in high level public posts (Especially in strategic public enterprises and offices for expected future private gains), and award of public tenders without following accepted procedures on merit, transparency and competition (Works, Communication and Transport, Defence, etc). Other cases and examples included allocation of plots and landed property without due procedures (Lands sector), award of study and other scholarships without due merit (Education sector), and bribing the Press to gain favours (the Media, Business and Politics). These are just some selected examples to show the scope and diversity of activities that involve some corrupt practices.

The Commission notes that Tanzania had no national level corruption problems in the 1960s up to the early 1970s. Corruption began to emerge in the late 1970s and ultimately became endemic in the late 1980s and early 1990s. With the economic crises of the 1970s documented extensively in the literature the government was forced to introduce various

political, legal and economic measures (the crises included Budget Mini-Crisis in 1971-72, The world oil shocks in 1973-74, Major drought in 1974-76, Villagization disruptions to the economy in 1974-76, the breakup of the EAC in 1977, the second oil shock in 1978-79, the War with Uganda in 1979-80, and the world recession in the early 1980s that depressed export prices for Tanzania exports while raising the import prices). However, such measures were also part and parcel of the socialist experiment noted above. We have noted the Confinement policy in wholesale trade for some local and imported items, the Price Control System, the Compensation (wage and salary) controls, Taxation policies, Credit rationing, Controls on interest rates, and Administrative allocation of foreign exchange.

The main causes of corruption in the 1970s, according to the Commission, were in eight captions, namely (1) implementation problems of laws and regulations (2) laxity in administration and accountability (3) lengthy and difficult procedures (4) scarcity of essential commodities (5) low salaries and the rapid rise in the cost of living (6) insecurity in the employment tenure (7) lack of 'Political Will' and (8) the weakness of government organs. It further notes that corruption of the time was associated with the lower and middle level servants with the express need to make ends meet, whereas Leaders were clean people (case of too rigid and repressed economy, not much capitalism).

The post 1985 type of corruption is said to be rooted in the ranks of leadership, right from the top. The Commission lists seven major causes in the report, three of which deserve some short notes for amplification:

1. **Excessive Monetary Expansion in the Economy.** It is noted that after trade liberalization the volume of trade rose fast but only a few had access to a lot of money. The rich traders in turn began to use their money to buy unlawful favours and engage in illicit practices, namely tax evasion, cheating on land acquisition, drug dealing, and importation of substandard goods. Many top leaders were lured to the acquisitive instincts.
2. **Lack of Transparency in Executing Decisions.** It is said that transparency has disappeared in transacting public business, creating discretionary loopholes for favouritism. Examples given include massive tax exemptions, improper allocation of public property and houses to the non-deserving, and other forms of permits given 'under the table'.
3. **The Emergence of Conspicuous Consumption.** With the abolition of the Leadership Code of Ethics in 1990 there developed competition among leaders in conspicuous consumption. With limited incomes from official means to sustain such a culture the leaders have fallen easy prey for the businessmen who are their 'clients' in corrupt activities (mainly to benefit business).
4. **Others.** The other four are closely related to the above three; namely **the (dubious) closeness between leaders and corrupt businessmen, erosion in the integrity of leadership through leaders themselves taking up business engagements in dubious trade and business activities, appointment of unethical leaders due to disregard for quality and integrity, and politics-business interactions** in a young multiparty system where big businessmen want to practise some politics in an environment where also the big politicians want to try out some business, resulting in corrupt practices.

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In the wording of the Commission it was noted as follows as the source of corruption in Tanzania:

It has become evident that the greatest source of corruption in the country is not the poor economy and low salaries; although these too have played some part. The greatest source is the laxity of leadership in overseeing the implementation of established norms. The absence of clear guidelines on accountability of leaders in their respective positions – be it in political leadership or senior administrative or management positions is part of that weakness (Volume 1 ch. 3 para 43).

Steps to fight Corruption and the Next Steps proposed by the Commission:

The report notes the various efforts to fight corruption since the colonial era. Notable legislations include the 1930's amendment to the Penal Code to include a section which stated that to demand, to solicit, to give and to receive bribe is a criminal offence. In 1958 the colonial administration enacted the Law for the Prevention of Corruption (cap 400), with provisions which widened the field of corruption offences to include the offer or receipt of presents and commissions. Post independence efforts saw enactment in 1971 of a new law on corruption, with further amendments in 1974 which provided for the establishment of an institution for the Prevention of Corruption. In 1975 the Anti-Corruption Squad was established. In 1983 the anti-economic saboteurs campaign was launched.

Yet corruption thrived unabatedly to a point where it had become a threat to peace and stability of the country. In the eyes of the Commission *this was because the Government had directed its attention to the acts rather than to the causes of the problem. Thus the arrest and detention of receivers of bribes did not remove the reasons which brought about corruption (Vol 1, Ch2, page 58, para 38).*

The major recommendations from the Commission relating to fighting corruption are clustered around themes and sectors

1. **Leadership and Ethics.** Under this the proposed measures included:

a. cleaning existing leadership and developing ethical standards to be binding on them
b. strengthening leadership and setting standards for recruiting new ones
c. setting controls over leaders through published and clear ethical standards
d. establishing transparent systems to check, control and/or punish suspected big bribers
e. cleaning up entire political systems following the directive of new and/or clean leaders

2. **The Civil Service.** The following were the recommendations:

a. weak top and middle level leadership required immediate appraisal via training and new recruits, as well as an institutional facilitation to sustain desired qualities and quantities

b. low morale required redress through better and timely remuneration, access to credit through a Revolving Fund and improved work environment through better working facilities and tools

c. dishonesty and disregard for established procedures had to be dealt with through stiff penalties and sanctions

3. **State Organs and the Judiciary**: These included the Prevention of Corruption Bureau, the Police Force, the Immigration Department, and the Judiciary. The following major recommendations were given:

a. streamlining and strengthening some structures with a view to enhance transparency, capacity and accountability

b. redefining the role of some departments (like the Anti-Corruption Bureau) so they did better, faster and timely work

c. changes in the Corruption Ordinance to give it 'teeth', clout and effectiveness

d. strengthening leadership, streamlining cadres and promotions, and enhancing pay and working tools in the police force

e. streamlining and simplifying procedures for getting various documents like Passports, Visas, Resident Permits and Citizenship

f. enhancing speedy, timely and fair conclusions to Court Cases, some of which are known to be in the Books for many years

g. enforcement of professional norms and ethics for magistrates and judges and enhancing remuneration and skills for the professions in the Judiciary 'sector'

h. streamlining and/or restructuring the Judiciary with a view to enhance control, supervision, integrity, transparency and accountability

4. **Government Departments**: These included the thematic area of government procurement and construction tenders/contracts, and the Departments dealing with taxation, lands, licences and permits. The following is a rundown of some of the major recommendations.

a. more professional scrutiny, control and enforcement in the area of procurement and construction contracts, following laid out rules and regulations

b. specific recommendations to deal with previous obvious cases of fraud, embezzlement and grand corruption in the area of construction contracts through Courts of Law

c. changes in rules and procedures in taxation with a view to enhance compliance, transparency, fair and timely/speedy valuations, and to expand the tax base and tax revenues

d. streamlining procedures with regard to land and plots with a view to simplify and make practices transparent, hasten processes for surveys and production of Certificates of Titles

e. enforce existing laws more vigorously, especially with regard to hunting blocks, protected land and established Master Plans of urban areas, and with powers and procedures for revocation for Certificates and Permits when established conditions are not adhered to

Three years (as at early 2000) have elapsed since the release of the Report, and it would be a critical research and analytical agenda to sort out how much has happened since then.

Section Four: Challenges and "the Next Steps"

4.1 First a Short Summary and Reconciliation

In this short paper corruption has been put in context as crime that can be analysed, in economics and related disciplines, as an optimization program involving the criminal on the one hand and the justice system or government on the other. Using the principal-agent-client framework the same is analysed as an optimization program linking the principal (the government or policy maker), the agent representing the principal but who can use his discretion and other options available to him to engage in corruption, and the client, the giver of bribes. For the potential criminal in the first case the choice to engage in crime will depend on the expected utility from such an exercise, which, in turn, depends on the probability of being caught and being convicted, the benefits from the activity, and the penalty. The overall crime rate will largely depend on, among other factors, the probability of failure in crime and the harshness of the law enforcement mechanism. The government, on the other hand, will be seeking to minimize the social cost from the crime industry by appropriate choice of deterrence mechanisms. Corruption is analyzable analogously, in which case here the potential criminals, from the perspective of government, are both the 'agent' and the 'client'.

The analytical approach reveals that typically the optimal crime/corruption rate is positive.

It is interesting to note that literature is also awash with arguments that corruption can play a positively useful role, especially in developing countries, under special conditions. The following are cited as examples (1) specific corrupt activities (as opposed to systemic corruption) helping to 'oil or grease the system' that otherwise is corroded and does not work smoothly, (2) helping to circumvent a wrong or inefficient economic policy, (3) facilitating to overcome limitations in undeveloped multiparty systems, and (4) getting around imperfections in organizational rules. In the repressed non-market systems it is argued that corrupt payments introduce a kind of a market mechanism. In a system where goods and services are allocated by queue, politics, random selection or merit, corruption may allocate goods according to willingness and ability to pay. Corruption in this case puts the goods and services in the hands of those who value them most and who can use them most effectively. This provides for efficient allocation in the economic sense, which is thus socially useful.

The case of Tanzania reveals the following on corruption (1) that it is rampant in all sectors of the economy (2) that its genesis is largely from the era of economic repression and crises in the mid 1970s (3) that initially it involved medium and low level bureaucrats in government who engaged in corrupt activities as part of income argumentation, but grew over the years to involve big business who corrupt top public servants and force them to bend rules, laws and regulations (4) that the present day corruption has its source in the unethical leadership and its laxity, augmented by the poor economy and low real pay, and (5) that the main causes relate to excessive monetary expansion, excessive greed on the part

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of business and leadership, conspicuous consumption and lack of transparency in executing decisions.

The Warioba Report gave recommendations for fighting corruption which called for systemic changes in leadership, in ethics and ways of doing business, in structures charged with administering justice and public finances, and in incentive systems for business and individuals.

4.2: Corruption and the Challenges of Development

There is sufficient analytical and empirical evidence to show that low levels of corruption (and strong government and legal institutions) are associated with rapid investment and economic growth. Recent cross-sectional studies involving many countries have demonstrated strong correlation between high levels of corruption and low investment rates (Mauro, 1995, 1997). The logic is that since the prevalence of corruption is highly correlated with other measures of bureaucratic efficiency such as the amount of red tape and the quality of the Judiciary which in turn have great influence on the 'country risk index', high corruption results into a country being characterized a high risk area for investment, both by local as well as foreign business. In this case the high corruption index may itself be a symptom of other underlying problems, all of which discourage investment.

The case of Tanzania is not studied in detail from the economic perspective, save possibly for the TTCIA Report in the References, but evidence elsewhere suggest that rampant corruption has negative impact on overall government revenue collections, thus impairing on government capacity to deliver (Klitgaard, 1988, Rose-Ackerman, 1998). Moreover, the state sponsored infrastructure projects tend to be costly and sub standard as a result of massive corruption (that Warioba calls Grand Corruption). In this case government wasteful expenditure rises as a direct result of corruption (Warioba, 1996, Klitgaard, 1988 and Rose-Ackerman, 1998).

Tanzania is evolving into a market economy, and, if corruption is tolerated at too high levels, there will develop (if not already) what is called a "competitive-bribery" state in which many corrupt officials deal with a large number of ordinary citizens and firms. The fundamental development challenge here is the potential for an upward spiral of corruption. The corruption of many officials can encourage others to get involved until, in the medium to long term, everyone is corrupt (except, possibly, the unreconstructed moralists, if any!).

4.3 "The Next Steps": Approaches to Curbing Corruption

In section 2 above we noted that corruption is likely to be greater if agents have monopoly power over clients, agents enjoy discretion, and accountability is poor. In section 3 we noted for the case of Tanzania that the present day corruption has its source in the unethical leadership and its laxity, augmented by the poor economy and low real pay. Furthermore, the Warioba Report gave recommendations for fighting corruption which called for systemic changes in leadership, in ethics and ways of doing business, in structures charged with administering justice and public finances, and in incentive systems for business and

individuals. This rundown suggests a framework for dealing with reducing corruption to a socially acceptable level along the lines below (see also some examples of related frameworks in Klitgaard, 1988, Rose-Ackerman, 1998, Bardhan, 1997 and Ades and Di Tella, 1996):

The following is a "menu" for building a corruption-free system:

1. A CLEAN Top leadership in all the Branches is the starting point: the Executive, the Judiciary and the Legislature.

These, in a Democratic society, are assumed to have been cleansed by the Political Processes that brought them to power. In the language of the principal-agent-client they are the "principal". However, it is possible that corruption may be systemic as to affect the top leadership, so that the Presidency itself may not be corruption-free (not to mention the Chief Justice Office or the Office of the Chief Parliamentarian). In this case few recipients of bribes may be concentrated at top levels of the system, like the immediate and top advisors to the President, the Chief Justice or the Speaker. Here two cases are possible; that of multiple bribers and that of few bribers. The first case may involve a pure extortionary kleptocratic state which is brutal but efficient, or it may be weak and inefficient in which case some of the inefficiencies are part of the effort to extract bribes from the public and the business community. The extreme case of few major bribers and few major receivers involves features of bilateral monopoly (Oligopoly). In this case possibilities for rent extraction are shared by the top leaders and the bribers, and their relative strengths determines the relative shares of the loot that goes to each party. Collusion, threats and counter-threats are some extreme possibilities of maintaining 'balances' over time. If big bribers are within the country the threats may involve engagement in violence sponsored by big business or some kind of Blackmailing, whereas the handles available to the political machinery may be property expropriation, refusal of business protection (neither party usually has enough guts to take the first shot, so the stalemate is the 'equilibrium). If bribers are from outside then the stakes of the state may be weakened further by threats of withdrawal by the foreign business and relatively stronger bargaining power of foreign business.

Assuming the initial conditions are satisfied, ie., at least the top leadership is clean, then go to step 2.

2. Selecting Agents for Honesty, Integrity and Capability

This involves investigating past records to weed out the dishonest and using professional criteria for recruitment, appointment and promotion. The screening may also use or exploit outside guarantees of honesty (networks for locating honest recruits and for sustained monitoring to see such honesty persists) . It is possible, however, there may well be some tradeoff between honesty and technocracy, and in such cases the nature of the job to be performed will dictate the choice. For instance the honesty of agents is most needed in positions where discretion is unavoidable, monitoring is difficult, and the stakes are large

(internal security, inspectorate and top positions). Honest agents are those, in the language of the principal-agent-client, who place a great premium on the moral cost of corruption. Selecting agents whom the principal believes are reasonably honest and reasonably meritable means it will be reasonable for him to expect reasonably tolerable corruption in the establishment.

3. Changing the Rewards and Penalties facing the agents and clients

Shifts in the reward system may involve the following: raising salaries to reduce the need for corrupt income, rewarding specific actions and agents that control corruption, using contingent contracts to reward agents as a function of their eventual success or failure, and the use of non-monetary incentives and avenues like training, study tours, transfers, vertical mobility within the organization, publicity and prizes/praise for the deserving. It should be noted that generally in campaigns against corruption there is a mismatch between incentives and opportunities to control bribery and fraud. Officials in the middle and lower ranks of an organization have many opportunities to reduce fraud and corruption (because they directly experience it) but few incentives to do so (lower salaries and other benefits which would enhance their pay to reduce the need for corrupt incomes); whereas the opposite is true for the top officials (except in Grand or Syndicated corruption).

Four approaches are proposed for penalizing corrupt behaviour: raising the general level of formal penalties, raising the principal's authority to punish, indexing the size of the penalties to the size of the bribe to the agent and illicit incomes/profits to the client, and using nonformal penalties such as negative publicity, transfers, castigation and loss of professional standing

4. Maximize chances of Detection of Corrupt Behaviour

This involves gathering and analyzing information relating to operations of the system and the interactions of agents and clients. Internally within the organization it means improving audit systems and MIS, generating data that can be used to isolate corrupt activities (random samples, unscheduled inspections, etc) and periodically assessing the organization's vulnerability to corruption. Furthermore, within the organization the other step is to beef up or strengthen information agents (auditors, surveillance, internal security, investigators) and to create a climate where agents will report improper activities anonymously.

In highly vulnerable organizations it may be necessary to change the burden of proof so that when there is reasonable and internally supportable belief of corrupt actions the suspects are given the onus of demonstrating their innocence amidst threats of internal 'sanctions'. This may be augmented with the periodic vulnerability assessment which normally seeks to generate information on three critical areas: the general control environment, the inherent risk of corruption, and the adequacy of existing safeguards. Externally information can be generated from third parties like the media, the banks, commissioned studies, as well as from the clients and the public. This information can then be corroborated with that generated internally.

5. Restructure the Principal-Agent-Client Relationship

The main logic here is to remove the corruption-inducing combination of monopoly power, discretion and little accountability. One measure is to induce competition in the provision of service either among public agents or involving the private sector to eliminate monopoly if this is possible. Discretion can be reduced by dividing major decisions into separable tasks, centralizing the handling of large cases and involving teams and teamwork which can be subjected to hierarchical reviews. Agents need to be rotated functionally and geographically to reduce the 'buddy-buddy' ('damu-damu' or 'benet' in local environment) arrangements to evolve, which are good breeding grounds for corrupt collusion. Client lobby groups against corruption can be another avenue for the changed relationship in the game. They tend to be particularly active in extortionist systems and where corruption is so entrenched that it is a threat to peace and security.

6. Changing Attitudes about Corruption:

Training and publicity campaigns can be used to educate and possibly change attitudes about corruption through raising the consciousness about its vices. This raises the moral cost of corrupt activities, but it can be expected to be a deterrent if corruption is over and above the need to mere survival. The introduction of new culture in organizations such as participatory management, socialization within the framework of the work environment, together with promulgating codes of ethics are some credited examples.

The role of pressure groups at national level is also underscored, just as is the role of living by example by the leadership. The following quote is relevant on this latter case:

> *The power to achieve success or failure lies with the ruler. If the measuring line is true, then the wood will be straight, not because one makes a special effort, but because that which it is 'ruled' by makes it so. In the same way if the ruler is sincere and upright, then honest officials will serve in his government and scoundrels will go into hiding, but if the ruler is not upright then evil men will have their way and loyal men will retire to seclusion. (cited in Klitgaard, 1988, pg. 91).*

A Short Synthesis

The discussion above gives what can be called a set of some generic policies for fighting or controlling corruption. It is easy to see that all the variables relevant from the perspective of the principal, the agent and the client as summarized in 4.1 above are accommodated in this menu. Selecting honest agents has the effect of picking those who give a high moral (and possibly monetary) cost to corrupt activities, thus reducing the expected utility from such activities. On the other hand changes in rewards and penalties have the intention of reducing the need for corrupt income for the agent (rewards) while increasing the cost of the

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crime (penalties) both for the agent as well as the client. Gathering information has the effect of increasing the probability of detection, thus reducing the expected utility of corrupt activity while enhancing the possibility of crime failure. Monopoly, discretion and lack of accountability are best checked when competition is encouraged, rules and procedures are tight and control systems are in place. Lobby groups, transparency, credible and live examples by leadership and changes in organizational culture facilitate participatory management which is credited with very low potential for corruption.

It is also easy to see that the Warioba Report Recommendations for fighting corruption are subsumed in the menu above: systemic changes in leadership, in ethics and ways of doing business, in structures charged with administering justice and public finances, and in incentive systems for business and individuals.

4.4 A Short Conclusion on What is to be Done for Sustainable Development

In the context of on-going reforms in most developing countries it is increasingly being emphasized that in addition to changing the ground rules for economic and social development such initiatives should change social attitudes and expectations, and anticorruption efforts should limit public officials' opportunities for corrupt activities and increase the benefits of being honest (and the cost of being corrupt). We conclude this study with a broad proposal for the macro level core policy measures needed:

1. **Changing, in a fundamental way (and sustaining such changes), the benefits and costs under the discretionary control of officials; as well as the system of incentives,**
2. **Facilitating the enactment of credible and formal laws on corruption and enhancing the capacity of law enforcement, and**
3. **Creating opportunities for sustainable employment levels and enabling institutions and the private sector to afford transparent, adequate and rising compensation (incomes) commensurate with expectations and sustainable development.**

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