DIVERSITY IN THE TANZANIAN BUSINESS COMMUNITY

ITS IMPLICATIONS FOR ECONOMIC GROWTH

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EXECUTIVE SUMMARY

This report profiles diversity in the Tanzanian business community and assesses its implications. It stresses that Tanzania is in the early stages of emergence from a socialist period that lasted nearly 30 years. The memories and institutional legacy of that period continue to influence all aspects of political and economic life, including business. Despite a decade of economic reforms, Tanzania's business environment remains one of high risk and great difficulty.

The difficulties of Tanzania's business environment are numerous. They include the following. (1) **Bureaucratic Difficulties.** Members of the business community believe that the bureaucracy continues to exhibit the laxity and indifference to performance of the socialist era. The bureaucracy is also perceived as still inclined toward a statist approach to economic management. (2) **Corruption.** The report states that "corruption is a cancer in the Tanzanian polity and it has spread everywhere." Corruption has mostly negative effects. It raises the costs of doing business and thereby imposes an implicit tax on all Tanzanians. It transfers economic resources from public sector institutions such as schools and hospitals to Tanzania's political leaders and civil servants in their capacity as private citizens. It has induced high levels of public cynicism and "donor fatigue." (3) **Poor Infrastructure.** Tanzanian business is constrained by the poor condition of the country's infrastructure such as inadequate telephone communications and irregular and unpredictable electricity and water services.

Business is further constrained by additional factors. (4) **Political Weakness.** Business leaders feel that they have little or no leverage over a government whose actions can spell the difference between economic success and failure. (5) **The Party System.** The party system does not present the business community with a supportable alternative to the present government. (6) **Lost Organizational Skills.** The business community has a vast agenda in rebuilding organizational and entrepreneurial skills lost during the socialist period. (7) **A Deficient Legal Environment.** Property rights in productive assets are poorly spelled out and the continuation of repressive laws from the socialist period exerts a chilling effect. (8) **High Interest Rates.** Credit is difficult to obtain and available only at high interest rates. Government bonds paying 40-50% "crowd out" private borrowing.

<u>Diversity in Tanzanian Business</u>. Diversity in Tanzanian business assumes several distinct forms. (1) **Old vs. New Enterprises.** Some private businesses survived during the socialist era but these were highly dependent upon political

protection. Because of the new economic environment and the flood of imports, they are dying out. New businesses able to thrive in a competitive environment are taking their place. (2) **Trading vs. Manufacturing**. The economic interests of these two groups are diametrically opposed. Manufacturers seek protection and have formed the CTI to try to obtain it. They have been unsuccessful. Traders seek freedom to import. They have prevailed. Owing to weak customs enforcement, Tanzania is a virtual duty-free zone.

(3) **Asian vs. Indigenous Enterprise**. The report explores the stereotype that Asians (a) concentrate in trade; (b) avoid investments in fixed assets; (c) corrupt the political system to the detriment of African welfare; and, (d) that Asians have an unfair advantage over indigenous business. It makes the following points. That overt racial antagonism toward Asians based on these beliefs has begun to decline; that individual members of the Asian community have become heavily invested in fixed assets including factories and plantations; that this fact is becoming widely known and better appreciated; that many Africans have an empathic understanding of the repeated traumas inflicted upon Asians in the past; and that the CCM has employed its residual moral suasion to create a non-racial political climate.

Asian business entrepreneurs acknowledge problems of corruption but raise serious issues: that the very concept of Asian is problematic when applied to families that have lived in Tanzania for generations; that cases of corruption are isolated to a small minority, some of whom are recent arrivals or returnees; that collective responsibility is not an appropriate conclusion; that blame should be assigned to the recipient as well as giver of bribes; that business intrinsically prefers a predictable, law-abiding environment; that hedging strategies which keep assets overseas are a rational response to the insecure environment and not a culturally determined phenomenon.

Other aspects of diversity considered in this profile are:
(4) the growing importance of multinational enterprise; (5) the division between formal and informal sector activities; and, (6) a gender gap between female owned and male owned enterprises.

The report <u>concludes</u> by assessing Tanzania's politico-economic future. It finds two possible scenarios. [1] **Reinvigorated Reform:** This scenario hinges on an assessment of Mkapa and the people that he is likely to surround himself with. Driven by the terrible realities of the current economic crisis, Mkapa is seen as an independent leader, one not tied to Nyerere, who has the strength and will to relaunch the reform effort by taking some very tough decisions early on and making sure that they are carefully implemented. [2] Stalled **Reform:** This scenario paints a very different picture of the next government. It sees Mkapa as being honest and well meaning, but too tied to Nyerere and other barons of the party to be decisive in choosing a capable cabinet, taking tough decisions quickly, working closely with the Fund, Bank and donors, much less being able to provide strong, visible leadership and a vision of some form of a new capitalist future.

GLOSSARY OF ACRONYMS

ATC	Air Tanzania Corporation
CCM	Chama Cha Mapinduzi (Revolutionary Party)
FINDP	Financial Sector Development Program
IPC	Investment Promotion Center
LART	Loans and Advances Realisation Trust
NBC	National Bank of Commerce
NMC	National Milling Corporation
NUTA	National Union of Tanganyika Workers
PSRC	Parastatal Sector Reform Commission
CTI	Confederation of Tanzania Industries
SOE	State Owned Enterprise
TANESCO	Tanzania Electricity Supply Company
TCCCO	Tanzania Coffee Curing Company
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TFA	Tanganyika Farmers' Association

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I. Introduction: Business Past and Present

This report presents a profile of diversity in the Tanzanian business community. It also assesses the possible implications of that diversity for Tanzania's economic trajectory. To understand this profile, it is essential to begin with one very basic fact. Virtually every respondent we spoke with began his or her remarks by insisting upon the importance of Tanzania's recent past. Tanzania's business community, like other important segments of Tanzanian society, is in the very early stages of a recovery from the constraining effects of the statist and would-be socialist political system that governed the country from the late 1960s through the early 1980s. The memories and institutional legacy of that period continue to influence all aspects of political and economic life in Tanzania. Business is no exception.

Tanzania today presents an exquisite version of the dilemma of the glass: Half full or half empty? On the positive side, Tanzania has seen numerous improvements during the past ten years, in both its political and economic systems. Politically, Tanzania has progressed from a single party, authoritarian regime with a state-controlled media to a multi-party system with a lively and independent press. It has just held is first openly contested, multi-party elections to the office of Tanzania President, Zanzibar President, Tanzania National Assembly and Zanzibar Assembly. For individual citizens, the new sense of freedom is palpable. There is open and lively discussion of political issues and personalities and Tanzanians we met seemed willing to be completely forthcoming about their preferences of candidates and parties.

Tanzania has made substantial progress in economic reform, as well. The most conspicuous feature of the Tanzanian economy today is that individual Tanzanians are better off materially than they were during the socialist era although many Tanzanians claim that economic reforms have widened inequalities in the country and that some members of the society have become worse off. Since accepting the necessity of a structural adjustment program in 1986, it has liberalized trade, allowed the value of its shilling to be determined by an inter-bank rate, simplified currency exchanges by creating a system of private currency exchange bureaus, and made progress in divesting its state owned enterprises (SOEs). It has permitted the creation of private commercial banks, thereby creating competition with the state-owned National Bank of Commerce and changed its political climate to welcome investment by multi-national corporations (MNCs).

Tanzania has also made particular progress in liberalizing the largest sector of its economy, agriculture. Primary cooperative societies, which were banned in 1975, and then permitted to operate under tightly controlled conditions, have now been fully restored to autonomous status. Farmers have been given unprecedented freedom of choice and can now sell their products either to private traders or to their primary crop cooperatives. The single channel state monopoly system is an institution of the past. Prices of farm products have been decontrolled at both the farmgate and retail levels, and the government's parastatal crop authorities have had their economic role progressively reduced from a monopoly of procurement, processing and marketing to the point where their functions are largely advisory and regulatory.

On the negative (half empty) side, it is clear that much remains to be done both politically and economically if Tanzania is to become a truly democratic political system with a market-determined economy. Its recent multi-party election has been widely criticized as unfair by both international and domestic observers, some of whom consider that the election was so poorly administered that opposition charges of extensive rigging seem highly plausible. Most feel that the election of the President of Zanzibar was blatantly rigged in favor of the governing party, the CCM (Revolutionary Party). Despite a freer press, the government continues to have a decisively stronger media presence than the opposition through its ownership of Radio Tanzania and many Tanzanians stated that the government's radio broadcasts were unfairly favorable to the CCM. And, importantly, a number of repressive laws remain on the books. These laws, identified by a judicial commission as "the 40 oppressive laws" include the Preventive Detention Law, which allows the government to detain political opponents without specification of charges, and the Newspaper Act of 1976, which includes a very broad definition of sedition.[1] No small part of the chilling effect these laws continue to exert on Tanzanian politics has to do with the government's visible reluctance to repeal them.

Additional economic reforms are also urgently needed. There is compelling evidence that the past several years has been a period of corruption of such proportions that the revenue basis of the government itself has been badly eroded, causing a severe fiscal crisis. Representatives of the manufacturing sector constantly complain that corruption in the customs bureaucracy is so extensive that Tanzania is, for

[1] The government recently used the latter act to press sedition charges against an opposition newspaper. See The Guardian (Dar es Salaam), November 15, 1995.

all practical purposes, a duty-free zone. And some industries, including private ones, have closed due to the flood of goods that have escaped the imposition of tariffs. Progress in the privatization of SOEs has been painfully slow, barely touching the agricultural sector. The government has just begun the monumental task of reforming the financial sector, especially its ill-managed and hugely indebted National Bank of Commerce (NBC). And despite the substantial number of official economic reforms, administrative implementation of the new economic environment has been so sluggish that Tanzania's rate of economic growth is still only slightly higher that its rate of population increase. At the 4-5 percent it is far lower than would be possible in a freer and more dynamic economy.

Tanzania's business community reflects this potpourri of positive and negative aspects. It is both dramatically freer than it was ten years ago but less free than it needs to be to make an independent contribution to the country's political and economic progress. Individual entrepreneurs are rushing to take advantage of the economic liberalization but consider that Tanzania nevertheless remains a difficult and high risk economic environment. There are boom conditions in some areas of the economy such as construction, certain export crops such as cotton and cashews (but not coffee), and the informal trading sector but many Tanzanians are apprehensive that the incoming government may backslide toward the controlled economic conditions that did the country so much harm in the past.

The Changing Business Environment

To understand the shape and behavior of the Tanzanian business community today, it is vitally important to recall that from 1967, when Tanzania proclaimed its commitment to a socialist economy, to the early 1980s when economic reforms began, private business activity was officially viewed as inimical to the welfare of the Tanzanian people. For many Tanzanians that ethos seems to be discredited. As a general rule, private business is now socially and politically more acceptable. This is a major step forward. Under the surface, however, Tanzania's acceptance of market forces may be "a mile wide and an inch deep." Even Tanzanians who speak the language of liberal economics seem to reach almost instinctively for governmental solutions to the problem of growth. And for every officially announced economic reform in the nation's capital city, Dar es Salaam, there appears to arise an administrative or political blockage to full implementation in Tanzania's rural areas which still constitute the majority of the population and the lion's share of the national economy.

To appreciate just how far Tanzania has come, it may be useful to recap how far the Tanzanian government had gone to create a protected and uncompetitive economic environment. Prices of agricultural goods were fixed at both farmgate and retail levels; the processing, distribution and retail marketing of these goods was carried on through a "single channel" (state monopoly) system; tariffs and quantitative restrictions defended both state owned industries and a number of private ones from foreign competition; the SOEs were also protected from domestic competition through a highly regulated price system for their products. Where private enterprises were allowed to operate alongside state industries, they had to exercise great caution about competing with the state sector.

The old Tanzanian state also imposed rigid controls on the financial environment. The exchange rate was fixed and heavily overvalued, imposing a stiff penalty on producers of tradable goods and artificially subsidizing urban wage earners and consumers. Nationalization of the banking system meant that interest rates on both loans and deposit accounts as well as borrowing opportunities were strictly controlled by the government. Tanzanians were not allowed to hold or obtain hard currency without the government's permission.

The outcome of these restrictions was a severe economic decline. During the 1970s, per capita income began to fall. Official figures concealed the hardship being suffered by the Tanzanian people. For much the growth that was recorded occurred in the provision of government services and many of these were more mythical than real.[2] Vital necessities including foodstuffs or medicines were typically available only at highly inflated informal market prices. This lowered the quality of life in ways that were statistically invisible but all too painful to those Tanzanians who had to bear the cost. The country's transportation system was in disrepair. Shortages of parts and inputs had strangulation effects on virtually every economic activity.

The government's response to economic misery was to maintain and even deepen its system of regulation and control. A brief experiment in liberalization, the so-called "Dar es Salaam Spring" of 1975 was abruptly brought to a halt as an

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[2] There is compelling evidence that since the era of liberalization, official figures have begun to underestimate the size of the Tanzanian economy, possibly by as much as 50 percent. See Tanzania: The Size of the Economy (Vols I and II.) This report was prepared for USAID by Business Investments and Management Company, September 1994.

economically starved citizenry seemed to respond with politically threatening alacrity to a modest opening for private business ventures.[3] Closure was restored and the pattern of state control was carried forward to the early 1980s. Indeed, the state's effort to squelch any sign of private economic insurgency seemed to reach a new height with the "anti economic saboteurs campaign" of 1983. In this campaign, anyone suspected of unpermitted economic activity could be arrested and imprisoned until his/her innocence was established. One respondent commented that the police were encouraged to enter private residences and demand receipts proving the legality of even the most trivial items. Eventually, the campaign was ended as Tanzanian leaders came to realize that the country's economic woes were rooted not in individual behavior but in a deeper structural malaise. The anti-saboteurs campaign may have been the last gasp of the old system.

That the Tanzanian private sector survived at all in these circumstances is a testimony to its resiliency and to the spirit of entrepreneurialism among the Tanzanian people. If the Tanzanian business community today appears misshapen with an over emphasis on trade at the expense of productive activity, overly interested in short-term, low-risk activities at the expense of investment in slow maturing assets, and still suspicious of the government's long-term intentions, these characteristics must be understood in historical context. Mistrust of the government's intentions undoubtedly explains why Tanzania has experienced significant capital flight during the past two years: as the multi-party election approached, and it began to seem uncertain which party and group of leaders would govern the country, old insecurities resurfaced. Also to be understood in historical context is the fact that many members of the business community continue to use hedging strategies that permit them to keep a significant proportion of their financial assets overseas, while bringing into Tanzania only those financial resources necessary at a given moment.

The character of the Tanzanian business community has changed dramatically since 1986 and continues to do so. What this report seeks to do, therefore, is to provide both a historical perspective and a snapshot-in-time of a business community that is in rapid flux. If policies of economic liberalization remain in place, even greater changes can be expected in the next five years. The Tanzanian business

[3] The government had briefly decided to de-nationalize certain "nooks and crannies" in the economy such as gasoline stations, butcher shops, book stores and some retail outlets.

community today is a kaleidoscopic mix of the old and the new, of private businesses that managed to survive during the socialist period and a new generation of firms that have come into being during the era of liberalization.

The mere existence of older private firms that date to the socialist period illustrates how contradictory Tanzania's business environment has been and remains. Although the government of founding President Julius Nyerere sought to implement one of modern Africa's more extensive socialist agendas, it did not and could not nationalize all private business activity. Not only did important sections of the Tanzanian economy, therefore, remained in private hands, especially in the agricultural and trading sectors, but these businesses were able to survive only on the basis of their close political and personal ties with leading members of Tanzania's socialist leadership.

The survival of private firms, whether in agriculture, trade or industry, did not show any planned economic rationale that we could discern. Socialist nationalizations were unsystematic and often arbitrary. Regrettably, traces of the tendency to frame and implement policy in this manner continue during the liberal era.

The few private firms that survived did have an important political characteristic in common; namely, an ability to hunker down and develop survival strategies to cope with an omnipresent state. The skills they developed were largely political in character and involved establishing close relationships with leading politicians in order to obtain import licenses and gain business contracts with government agencies and state-owned firms. This may help explain the political behavior of large portions of the Tanzanian business community, especially its unflagging support for the governing party.

The Darwinian process underway in the business sector today is an unusual one. In a mature industrial economy, businesses succeed and fail but the basis of success or failure remains a constant, the ability to operate efficiently and profitably. But in an economy like Tanzania's, where a socialist economic approach is rapidly giving way to market-based economic principles, the basis of survival itself is in a state of change. Survival skills that were indispensable during the period of state regulation are very different than those that permit a business to flourish in an unregulated and competitive milieu. The former requires political adaptability, an ability to accommodate state authority; the latter, an ability to deal with economic risk.

One of the more arresting features of the Tanzanian business community today is the generational divide. Older businesses that survived through their political adroitness continue to view this skill as the basis of survival in the new era. But as the Tanzanian business environment moves in a more and more liberal direction, a newer generation of businesses is taking its place in the sun. Their skills have to do more with ability to assess risk and find ways of profitability in a more and more competitive marketplace. The new generation is more acclimated to openness and competition than to governmental guarantees, contracts and protection.

Tanzania's unhappy past is a memory that creates attitudes and strategies of watchfulness throughout the business community. Virtually all Tanzanian business entrepreneurs recall personally the government's efforts to suppress private sector initiative. Many handle these memories with economic strategies that involve maintaining assets overseas as well as investments in the country. The on-going visibility of Tanzania's first president, Julius Nyerere, is both helpful and unhelpful. Although Nyerere may have been important to the democratic process because of his strong personal endorsement of multi-partyism, his prominence in the country's day-to-day political life, accompanied as it is by his very obvious distaste for economic liberalization, is unhelpful. For it is an on-going reminder that anti-capitalist sentiments lurk very close to the surface in the Tanzanian polity.

One result of all this is that it is all but impossible to develop an objective indicator of how well or how badly Tanzania is doing. Estimates of Tanzania's rate of economic growth, for example, vary wildly. The Financial Times recently estimated the growth rate at 3.5 percent.[4] The World Bank places it at between 4 and 5 percent, and at least one private economist, with long experience in Tanzania, suggests that the real growth rate is closer to 6 percent. He argues that the World Bank seriously underestimates the size and dynamism of Tanzania's vast unrecorded economy. If the lower figures are correct, they suggest a rate of growth that barely exceeds population increase. But it is, nevertheless, important to bear in mind that even 3.5 percent points to a radical change for the better. For 3.5 percent is about 5 percent higher than the -1.5 percent rate of growth widely estimated for the late 1970s and early 1980s.

[4] The Financial Times (London), November 21, 1995, p. 6.

II. The Subordination of the Business Sector

Tanzania's political past is defined by the government's hostility toward private economic activity, a policy that emanated from a socialist approach to development. But independent business was by no means the only sector of Tanzanian society that the government sought to control, regulate, or nationalize. The Tanzanian idea of central economic planning was to bring all economic actors under the jurisdiction of the state apparatus. This included not only business but other powerful economic actors such as trade unions and agricultural cooperatives. It further included a host of other actors as well such as the country's youth organizations, its women's groups and the media.

Tanzania, in other words, was not a country that subordinated private business but allowed other forms of social organizations to roam freely. Its political leadership sought to place the entirety of Tanzanian civil society under the jurisdiction of the state apparatus. Civil society, as we use the term here, can be broadly defined as that entire complex of organizations and associations, both formal and informal, organized and spontaneous, that lie somewhere between the family and the state. It is coterminous with the group life of a society and is by no means confined to the business community. It includes such large, relatively well financed groups such as trade unions, agricultural cooperatives and chambers of commerce and industry as well as a host of smaller groups lacking in organizational or financial resources.

The past several few years have seen a re-emergence of a variety of civil society actors in Tanzania and this includes the business community. But this trend is still in its infancy. Therefore, the relationship of cause and effect between the renaissance of civil society, on the one hand, and trends toward political democratization and economic liberalization, on the other, is far from clear. The conventional wisdom on this matter holds that the development (or re-development) of civil society is a major force in promoting the restoration of democracy. But, in Tanzania, it is arguable that the direction of causality is in the other direction; namely, that liberalizing trends in the political and economic environments have contributed to the re-birth of civil society actors. Business associations, for example, may be enjoying their renaissance precisely because of the greater degree of freedom available under democratic institutions and an economy that is becoming gradually more open.

As part of its socialist strategy, the Tanzanian government began to create large numbers of semi-autonomous

SOEs. There was nothing new about this model. In the western world, state-regulated corporations had long been the preferred vehicle for the provision of essential public services such as water and electricity. These were justified on the basis of a need to make certain that these services would be available to everyone at a reasonable cost.

Tanzania, however, took the SOE model and extended it to areas of the economy where its applicability was, to say the least, questionable. The idea of state enterprises had never had many advocates among development economists and those who did defend it generally stressed the need for it to be applied in a highly prudential manner. Supporters of SOEs believed that they should be established in an orderly and gradual manner so that the potential inefficiencies of state enterprise could be balanced by the greater productivity of private sector firms. The number of SOEs should be kept strictly limited so that the demand for skilled management and labor would not exceed the available supply and so that public subsidies, where necessary, could be kept to a minimum. SOEs should be developed only in areas of the economy where there was an obvious economic advantage in doing so.[5] And perhaps most importantly, the SOE strategy should be adopted in such a manner that there would be incentives for economic efficiency.

In Tanzania, all these cautionary admonitions seemed to be lost sight of. SOEs sprang up everywhere without any regard for the resource limitations of the country's primarily peasant-based, agricultural society. By the end of the 1960s, there were SOEs for practically all of the consumer non-durables including textiles, soft drinks, beer, cigarettes and shoes. SOEs were even used for the production of matches and soap. By the end of the 1970s, Tanzania had established approximately 350 state-owned enterprises. Their reach extended into every nook and cranny of the economy. By the early 1970s, the state found itself owning butcher shops, book stores, grocery stores, and a chain of retail clothing outlets. It included not only the standard established areas such as utilities but such traditionally private services as banking and insurance.[6]

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[5] This was Albert Hirschman's famous idea of "backward linkages." Hirschman believed that enterprises should be selected on the basis of their ability to impart a stimulus to the agricultural sector; e.g., textile industries in a cotton economy, cigarette industries in a tobacco economy, etc.

[6] See The United Republic of Tanzania, Parastatal Privatization and Reform: Masterplan (Dar es Salaam: Government Printer, 1993).

In all of this, the state's role was indispensable. Its decisions defined those SOEs which would be brought into being; once that decision was made, its tax resources provided the capital to finance physical construction and absorb other costs; as principal shareholder, the state both supervised management and assumed ultimate responsibility for the process of production; through the legal system, the state was also provider of protection and regulator of the labor market.

In the furious scramble to create a socialist economy, many private firms were simply nationalized. These were the losers in the Darwinian struggle to determine which portions of the private sector might survive. For companies that remained in private hands, it was all but impossible to maintain any degree of economic independence owing to the fact that the state became the single most important consumer of the goods they produced or the services they provided. Because of the economic insecurity engendered by nationalization, some private firms asked the government to assume part ownership.

The firms that survived had to deal with the presence of the state in every aspect of economic activity. Credit or hard currency allocations could be obtained only from state banks. Labor relations had to be carried on with a trade union movement, the National Union of Tanganyika Workers (NUTA) that had itself been reorganized as an administrative organ of the state. The importation of raw materials or other vital inputs had to be carried on through state import agencies. And even the storage, transportation or delivery of finished goods had to be contracted through state firms established for these purposes.

The political end-product of all of this was an all-pervasive pattern of dependency upon the state. Blue collar workers became the employees of state-owned factories and services. Middle class and "white collar" professionals including not only civil servants, teachers and doctors in government hospitals, but technical and clerical workers in banks, insurance companies were also the employees of state institutions. Students received their bursaries, degrees and educational ranking from state educational institutions. And farmers depended upon the state for virtually every aspect of their economic well-being from the marketing of crops through provision of vital inputs.

One hidden casualty of all this was a loss of entrepreneurial skills. Because of the overwhelming presence of the state in all aspects of economic life, even those few areas of economic life that remained nominally in private hands were characterized by a high degree of dependence upon central political authority. For Tanzania's small-scale businesses, whether these were productive or service enterprises, the government was of towering importance either as customer or client or because of the always imminent threat that it would further extend its economic reach and become a competitor.

The end-product was Tanzania's well documented economic disaster, a generation of stagnant or negative economic growth. So much has already been written about Tanzania's economic decline that it need not be described in detail. The decline had the following principal characteristics: (a) declining industrial production as state-owned industrial enterprises suffered from severe problems of inefficiency and from spiraling shortages of vital inputs of all kinds most notably replacement of the capital stock and raw materials inputs; (b) stagnating production of exportable agricultural commodities and a declining share of world markets for these goods; (c) falling per capita production of food staples with sharply rising real food prices as staple items were increasingly available only in informal markets; (d) severe trade imbalances, scarcities of hard currency and, as a result, increasing shortages of imported goods, both consumption goods and production goods; (e) rising rates of inflation caused principally by deficit budgeting that was handled through monetization of the money supply; (f) all-pervasive political and bureaucratic "rent-seeking", the tendency of governmental officials at all levels, to exploit their positions for personal financial gain; and (g) a dramatic surge in informal economic activity including parallel production and parallel markets.

All this economic detail adds to a great human tragedy. An entire generation of Tanzanians lost the opportunities for a better life that a more positive economic performance might have made available. The magnitude of this tragedy is only now becoming evident, but one overriding fact is clear. If the official estimates of Tanzania's rate of economic recovery are even close to correct, it will be well into the next century before individual Tanzanians are restored to the levels of real per capita income they enjoyed in the mid-1960s. And in the meantime, the rest of the world will have moved further and further ahead.

III. The Re-Emergence of Private Business

What permitted or encouraged the re-emergence of more autonomous business activity? There are a number of answers to this question but basic to all of these was the fact that the government's socialist strategy did not work and could not be sustained. The decline of the socialist economy set the stage for the emergence of a new one in a variety of ways. Among the most important was the fact that economic decline caused the government to lose its grip on the society.

A second factor was a change in policy emphasis within Tanzania's donor community. During the socialist era, Tanzania had become one of Africa's most aid dependent countries. It would be no exaggeration to suggest that donor assistance in the form of direct budgetary support and project loans on easy terms was a significant factor in enabling the old system to continue as long as it did. During the early 1980s, following the publication of the World Bank's "Berg Report",[7] many donors began to insist upon policy reforms as a condition of continuing assistance. Tanzania's dependence on foreign assistance has made it amenable to the new aid conditions, but it has also meant that the new economic reforms were not home-grown. Tanzania does not exhibit the same sense of reform-ownership that can be discerned in Ghana, for example.

Tanzania's willingness to implement a program of economic reform appears to emanate from its on-going dependence on foreign assistance to a far greater degree than the reformist convictions of its political leadership. This is of vital important to USAID and other donors. Without continuing donor pressure, the Tanzanian government might simply let the reform process grind slowly to a halt. Even with intense donor conditionality, Tanzania has been a reluctant reformer, proceeding very slowly with certain major aspects of the reform process.

To understand why Tanzania adopted reform at all, it may be useful to recall that one of the principal objectives of reform was to save the Tanzanian state. By the early 1980s, Tanzania found itself ensnared in the paradox of radicalism. Its goal was to create a powerful state with sufficient institutional capability to extend its controls into the day-to-day life of Tanzanian citizens. But the deepening economic crisis was reducing the revenues and resources of the state, weakening its institutions and diminishing its ability to control the society. The paradox was a painful one for

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[7] World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C., 1981).

radically inclined Tanzanians. To save itself institutionally, the government had to be prepared to accept a liberal reform agenda.

Shrinking Writ of Governance

Economic decline shrunk the writ of governance both spatially and functionally. Its most conspicuous effect was to greatly reduce the geographical boundaries of meaningful political authority. The physical space over which the government could exercise effective control was progressively reduced, extending to little more than Dar es Salaam, one or two major towns and a small number of economically significant rural centers. Outside these areas, the central government was less and less able to involve itself in the day-to-day lives of individual citizens. What Tanzania did possess was one of Africa's most extensively organized political parties. Its governing party, the Chama Cha Mapinduzi (CCM) had branches, party cells, and development committees in the smallest and most remote regions of the country. As the government shrank, the party tended to be the principal (perhaps only) source of contact with central political authority. To this day, many rural Tanzanians do not distinguish between the CCM and the government.

The shrinking of the state was largely the product of the decreasing resources available to the government. As the economic base shrank, so did the purchasing power of governmental revenues. The government could simply afford less and less: it could purchase fewer vehicles; those it possessed fell into disuse for lack of repairs; government offices had a smaller and smaller number of operational typewriters and office machines, a smaller volume of basic office supplies, and less and less in the way of telephone equipment or other means of internal communication. Perhaps most importantly, the government's revenues procured less and less in the way of materiel with which to provision the police forces, the army, and intelligence units. Thus, Tanzania became a prime example of another of the great political paradoxes of modern Africa: a statist authoritarian regime characterized by political weakness and a striking inability to assert its control over civil society.

The shrinking of the Tanzanian state set the stage for economic and then political reforms. For centralized authority even in its statist form existed, if at all, as a distant reality. For growing numbers of Tanzanians, central authority was only intermittently present in daily life and its presence, when it was felt, typically assumed a negative form such as abusive military personnel or rent-seeking bureaucrats. Tanzanian politics became confined to an ever smaller number of leaders and their clienteles, a few mass organizations organizationally tied to the governing party and their dependent membership, and those still able to receive state largesse in the form of rents, jobs or lucrative contracts.

Civil society began to reappear because the Tanzanian state could do so little to prevent it. In the major cities, life in African neighborhoods took on a quality of self-help. Ironically, this was a value that the government had always given great lip-service to but found ways to squelch in practice. But by the late 1970s, people had become more and more dependent upon the informal economy as a source of both essential goods and material livelihood. The booming of the informal sector revealed more than anything else the extent to which the government had become unable to provide Tanzanians with even the most minimal of life's necessities.

As the quality and availability of government services declined, citizens were thrown onto their own resources to provide life's most basic necessities. The shrinking writ of the state opened the political space necessary for a re-birth of civil society. Independent business activity emerged to fill the space vacated by state political authority even before initiation of formal economic reforms. An agreed upon terminology for this revival continues to elude us as some observers refer to the parallel economy; others, the informal economy and still others, the black market economy. The terminology is less important than the fact that the state lost its capacity to provide an adequate supply of goods and services. Tanzanians had to learn to do on their own.

The economic decline was fostering an environment in which business activity became more and more permissible. Tanzanians who had already become mistrustful of their political leadership became increasingly cynical about the state. By the early 1980s, the early popularity of the nationalist movement was replaced by very different attitudes toward governmental authority. At the heart of the new political culture was the attitude that political leaders were motivated principally by selfish concerns and narrow material interests. Ordinary citizens felt few compunctions about adopting the same attitudes.

The atmosphere of cynicism became self-reinforcing: the erosion of popular legitimacy, arising from poor economic performance and ubiquitous corruption, meant that the government became more and more dependent for its political stability upon manipulation and raw coercion. Not surprisingly, an all-pervasive skepticism about the formal institutions of government and what they can provide in the way of citizen welfare has been an important contributory factor in the re-birth of a robust business sector.

Tanzanians drew two conclusions from the shrinking writ of governance. First, that the formal state could not be depended upon to improve their lives and, second, that the state was powerless to sanction individuals or organizations that sought to do so on their own. Civil society as a spontaneous self-help phenomenon took root in these convictions. As material conditions became progressively worse, Africans increasingly devised survival strategies that required new forms of economic and social activity. The informal sector firms that produced and delivered everything from soap and furniture to foodstuffs and fabrics were only one part of this process. In literally every corner of the economy, Tanzanians found ways to surmount the country's economic difficulties. Private taxi and truck drivers banded together to share vehicles and parts; farmers joined together to collaborate in evading the increasingly predatory official marketing systems.[8] Professional and business associations also found the basis for a newly invigorated existence in the common need to find ways to cope with diminished resources, a lowered sense of future opportunity, and to protect individual members from repression.

Oftentimes, these associations did not have a high degree of formal structure; they often lacked administrative headquarters, did not formulate by-laws or institute regularized means of selecting leaders; dues collecting was rare and financial accounts even rarer. But the new associations nevertheless had some of the most important building blocks of associational autonomy. They provided a basis of trust among their members, based upon a shared conviction that grouping together was an essential survival strategy. They were formed independently of state auspices and thus were not a part of the formal corporatist environment; and, of great importance in contexts in which ethnicity often provided the most fertile source of group identity, some of the new associations were functional in character and seemed to represent the beginning of patterns of cross-cutting social cleavages.

Political science has yet to devise a communicative terminology for this early process of group regeneration. Perhaps "proto civil society" would suffice if it were taken

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[8] For an excellent case study of this process, see Aili Mari Tripp, <u>Changing the Rules: The Politics of Liberalization and the Urban Informal Economy in Tanzania</u> (Unpublished ms., December, 1993).

to convey the earliest stages of a recreating an independent group life. Political efficacy was a different matter altogether. In political contexts in which the formal rules of the political game still prescribed corporate associations tied to the state and in which some capacity for political repression continued to exist, it would be unrealistic to describe proto-civil society as dynamic and robust. But its mere emergence during the period of severe economic breakdown does suggest Tanzania's capacity for associational vitality. It further suggests the future potential for a dynamic contribution by civil society to a more democratic political environment.

Economic stagnation also contributed to the re-emergence of autonomous business activity by forcing the government to liberalize the nation's economy.

Economic Liberalization, 1981-1990

Tanzania's more liberal economic environment has been the indispensable precondition for the re-emergence of businesses that are disconnected from the state apparatus. Just as socialism created the political inclination to suppress the business sector, liberalism has fostered a business renaissance by providing incentives and opportunities for business groups to organize outside the existing structure of power. Not only has a private business elite assumed a place of growing importance in the country's economy, but the economic interests of these groups are so distinct from those of the older state sector that it can, in time, be expected to seek its own vehicle for their political expression.[9]

But this has not yet begun to occur. Most business entrepreneurs we interviewed preferred the present government party, the CCM.[10] That this party, which until recently espoused one of modern Africa's most systematic socialist ideologies and which implemented a development strategy based on rooting private capitalism out of the national economy, should have emerged as the preferred party of the business community presents us with yet another indicator of the peculiar shape of Tanzania's economic transition. Business entrepreneurs we interviewed offered several reasons for this otherwise baffling pattern of party support. First, the CCM

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[9] This draws upon Robert Pinkney, Democracy in the Third World (Buckingham and Philadelphia, Open University Press, 1993), p. 104.

[10] CCM stands for Chama Cha Mapinduzi or, literally, Party of the Revolution.

has acknowledged its past mistakes, repudiated socialism, and reversed its economic direction by implementing a liberal economic program. Second, the CCM seemed to most Tanzanian business leaders to have a generally higher quality of leadership than the opposition parties as measured by education and proven experience in government. While some individual leaders of the opposition were admired, even preferred, it was generally considered that their political organizations were too thin on both education and experience to be trusted with the responsibility of government. And, finally, there is the sheer comfort factor. The CCM is a known quantity. Its leaders are personally known to the business community and have been for some time. There is a sense of predictability and continuity in the relationship.

The new middle and working classes that are based in the private sector also have an incentive to throw their support toward political associations that will advance the interests of their corner of the Tanzanian economy. And, in time, their stake in the private economy can also be expected to become a political force that will help make economic reforms irreversible. But at the present time, however, we have no sense that this is taking place. The difference between Tanzania's governing party and its various opposition parties does not lie in their differing socio-economic bases of support but, rather, in a mix of other factors including regional or ethnic popularity, religion, and the popularity of individual leaders.

If all were well in Tanzania, the present outcome of all this would be a "virtuous cycle", one in which political and economic reforms reinforce one another to produce greater and greater progress in both areas. In a virtuous cycle, economic liberalization contributes to political pluralism (civil society) by creating the space for new economic actors including business and social groups based in the private sector to assume their place in the sun. As the business community and other new social interests establish a distinct presence in Tanzania's party system, this, in turn, should make for further progress in the economic reform process. For the business community would be in a stronger position to pressure the state for the economic reforms that are urgently needed if Tanzania's economy is to continue to grow.

Not all is well in Tanzania, however. In economic terms, Tanzania's business community is benefitting from a favorable externality. That is, it is the beneficiary of an economic environment it had little or no role in creating. Without continuing pressure from the donor community, this environment could once again deteriorate; it may even with such external pressure. Many Tanzanians feel that their country is at a political and economic crossroads and that its future possibilities include a return to a politically determined -- rather than market determined -- allocation of economic resources. The need for external pressure to maintain a liberalizing momentum during this transition stage creates a compelling argument for policy pressure by external donor organizations such as USAID.

The policy implication for Tanzania's donors is unmistakable: first and foremost, maintain a presence. Use that presence to sustain the economic liberality and this will help to sustain the democracy; sustain the democracy and the process of economic reform is better assured. The history of reform in Tanzania thus far affirms this relationship, if for no other reason than that of time sequence. Economic reform preceded political reform by about five years, just enough time for renewed associational life to begin to take root.

But time sequence alone does not establish causality and firm conclusions about the relationship between economic and political progress would be premature. It is critical to recall that Tanzania's economic transformation can at best be described only as an "early transition." Vast areas of the country's economic life continue to cry out for further reform and many observers have noted the possibility that the economic reform process may become "stuck" at critically important points including the privatization of SOEs and further reform of the financial sector. It cannot be taken for granted that Tanzanian civil society is as yet sufficiently robust to provide impetus to either economic or political reforms.

A snapshot of Tanzania in late 1995 suggests that the country is at a crossroads, with at least two possible future scenarios. One scenario points in the direction of putting the reform process back on track. The reasoning behind this prognosis is that the election of 1995, with all its deficiencies, represented a significant milestone in that it resulted in the replacement of an aging regime, whose reformist energies had clearly waned, with a new one, whose reform energies will be higher. In this perspective, the inauguration of a new government will usher in a renewed impetus to the economic liberalization.

The second scenario we can equally envision, however, is one in which the old statist tendencies of the CCM will reassert themselves beneath the surface of an economic reform process. In this prognosis, the old tendencies toward the political allocation of resources will once again come to the fore and the new business elites, whose rise has been based upon their skills in an open market economy but whose political position may still be precarious, will be eclipsed by the old ones whose prominence is based on their patron-client ties to key decision makers.

Which scenario prevails will depend heavily upon the commitment to reform of Tanzania's newly elected leaders and their ability to implement a reform program. Some members of the business community express confidence that economic conditions will improve once the new government is inaugurated. They believe that the political skills of the new leaders will permit a resumption of the reform process. But a larger number of business leaders lack this confidence. They believe that the newly elected leaders are too closely wedded to Tanzania's past approach, too personally beholden to Nyerere himself, and too deeply involved in patron-client politics that will stall any significant effort at further liberalization.

The vast majority of Tanzanian businesses seem to be girding themselves for an extended period during which they will need to deal with the Tanzanian state as an intrusive, unwanted and generally unhelpful presence in the productive portions of the economy. They believe emphatically that Tanzania's business climate will not improve during the next five years.

Some of the critical shortcomings in the present business environment are dealt with in the next section.

IV. Shortcomings of the Tanzanian Business Environment

Despite economic reforms that have breathed renewed life into Tanzania's private economy, the country's business environment continues to demonstrate critical shortcomings. As a result, private business has grown slowly, pressure from the business community is not among the major sources of the country's political or economic reforms, and most business entrepreneurs still consider Tanzania a difficult and high-risk environment.

Members of the business community do not generally feel that democratic politics has strengthened their position. By and large, they are either indifferent to democratic politics or apprehensive about it. When democracy asserted itself boldly, as in the recent election, many members of the business community were apprehensive. Their apprehensions took two forms: first, that the election might trigger social violence that would cause them personal or economic harm[11] or, second, that the election might lead to the empowerment of political leaders in whom they lacked confidence and with whom they lacked effective working relationships. That the election has passed without either of these events taking place has evoked an audible sigh of relief.

The Tanzanian business environment is not a healthy one. The difficulties of doing business profitably are numerous and varied, ranging from an indifferent, if not hostile, bureaucracy to woefully inadequate infrastructure. What follows is an attempt to present a partial inventory of the most important complaints Tanzanian business entrepreneurs made about their country's business environment. What is striking to us, as short-term observers, is that any one of the items on the list would be enough to discourage any but the most intrepid business entrepreneur. Taken together, they suggest that many important reforms remain on the agenda before Tanzania could be considered business-friendly.

Bureaucratic Difficulties

One of the most serious problems has to do with the interface between business and government. Numerous members of

[11] Fearing riots or demonstrations, many members of the business community moved their families out of the country during the election. Numerous retail traders, fearful of looting of shops, have been reluctant to bring goods into the country. Strangely, since this lowers the demand for $ U.S., this has contributed to dollar liquidity in the banking system and a strengthening of the Tanzanian shilling against the dollar.

the business community complained that, despite formal policy changes, the government bureaucracy continues to exhibit the laxity and indifference to performance of the socialist era. One industrial investor described the bureaucracy as "unhelpful" and said that Tanzanian civil servants seem unconcerned about the employment of local labor and so slow that "one must have a lot of patience."

The Tanzanian bureaucracy is also perceived as still inclined toward a statist approach to economic management. Many members of the business community are convinced that old ways and beliefs die hard and that, among the most influential Tanzanian political leaders and bureaucrats, there is an underlying preference for a return to a centrally controlled economy in which bureaucrats would once again play a central role. In this respect, the Tanzanian bureaucracy is viewed as an exception to the broad changes in attitude toward business in Tanzania. Whereas most Tanzanians now view business as vital to the future welfare of the country, bureaucrats are said to continue to view business from at standpoint of suspicion and mistrust.

A variety of factors, some tangible and some intangible, create and reinforce this perception. It is partly based on the continuing lack of clarity about property rights and the hesitancy of the court system to rule in favor of private property holders when these are pitted against the interest of the Tanzanian state. The perception is further reinforced when the government fails to pass administrative reforms into law and when liberal decrees and executive orders are not fully implemented at the regional level.

It is also based on the sense that Tanzanians officials have found a host of ways to frustrate the implementation of a market-based system, as when liberal technocrats are transferred from influential assignments to positions where their influence is minimized. The perception of statism is reinforced again when the government adopts a bureaucratic solution to a problem that could easily be handled through existing private sector organizations, or simply left to market forces.

One recent example: a government decision to have its Agricultural Investment Fund, a cash reserve to finance agricultural inputs, managed by a new (and inexperienced) state agency rather than an established, privately held agricultural importing firm with a proven track record in this area. Even better, the government might simply have chosen to leave it to market forces, especially given the liberalization of the financial sector which increasingly allows private financial institutions to handle agricultural pre-financing.

The sum total of all this is that Tanzanian business persons regard the Tanzanian state as an obstacle in their path rather than an indispensable source of support and information. As a result, relationships between business and the state apparatus tend to be difficult at best, fraught with mutual suspicion and often adversarial in style. Underlying and exacerbating all of this is the fact that virtually every encounter between a business person and a bureaucrat involves some element of corruption.

Corruption

Corruption is a pervasive, corrosive problem that has eaten away at the foundations of the Tanzanian political system.[12] The best metaphor is a loose paraphrase of John Dean's evocative phraseology: corruption is a cancer in the Tanzanian polity and it has spread everywhere. Alexander Muganda has described the problem in the following terms:

> Bribery is the main reason for the prevalence of bureaucracy. During the past five years the problem has grown even worse. Before you were asked to give bribes furtively, through hints. Now you are asked for them openly; you are downright demanded to give bribes.[13]

Individual Tanzanians deal with corruption in virtually every encounter with their government. Patients have to bribe to be treated in government hospitals; parents have to bribe to enroll their children in schools, and travelers on Tanzania's roads are harassed constantly by police and soldiers seeking bribes. And business leaders insist emphatically that in their dealings with the Tanzanian polity, they encounter corruption from the very highest levels to the very lowest.

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[12] This problem has been amply documented. See Corruption in Tanzania: A Socio-Economic Analysis. A Research report submitted to the Tanzania Chamber of Commerce, Industry and Agriculture, November, 1994). Also, The United Republic of Tanzania, The National Integrity System in Tanzania: Proceedings of a Workshop Convened by the Prevention of Corruption Bureau, Tanzania (Transparency International and Economic Development Institute of the World Bank, August 1995).

[13] Alexander A. Muganda, "The Corruption Conundrum in Tanzania: Defining Its Limits and Impact," in The National Integrity System in Tanzania, p. 12.

Corruption has numerous effects; mostly, but not entirely, negative. The first is that it raises the costs of doing business. Since businesses pass on their costs to consumers, corruption imposes an implicit tax on all Tanzanians. Because virtually every interaction with the government seems to require some sort of side payment to assure that necessary licenses, approvals or clearances are processed favorably, this tax is probably fairly high.

Corruption is a resource transfer from public sector institutions to Tanzania's political leaders and civil servants in their capacity as private citizens. Tanzania's school system is desperately starved for funds as are its hospitals and rural clinics. Much of the country's road system is in urgent need of repair and the improvements that are taking place are mostly donor-financed. Many rural regions seem desperately in need of basic services such as water and electricity. And the problems of the Tanzanian court system begin with the fact that it is so grossly underfunded. But numerous public officials are building expensive homes, driving expensive cars, purchasing expensive consumer goods, and investing in lucrative business activities.

That all this undoubtedly originated in the low purchasing power of public sector salaries explains the origin of the problem. It does nothing to excuse or solve it. Indeed, almost no one believes that improving public sector salaries will help reduce the problem. Members of the business community are convinced that Tanzanian politicians and bureaucrats have become so accustomed to treating their offices as sources of highly remunerative side payments that the level of salaries has become almost incidental.

Corruption spreads attitudes of cynicism among Tanzania's citizens and this poses additional economic difficulties. In an economically healthy society, some vital functions of government depend upon the willingness of individual citizens to be law abiding. A government's ability to collect taxes, for example, or to see to it that public property is not stolen or misused for private purposes depend upon citizen willingness to abide by the rules of a system. In Tanzania, however, corruption appears to have engendered an opposite attitude: namely, if its alright for them, its alright for us. Even if the Tanzanian government were to take immediate steps to halt corruption, it would be some time before the attitudes of mistrust that frustrate its revenue collection efforts began to abate.

Tanzanians complain constantly about the "lack of vision" in the present generation of political leaders. Although most Tanzanians are fully convinced that the socialist ideas of the previous generation were inappropriate for Tanzanian development, there is a widespread wistfulness for the clarity of purpose they seemed to impart to the country. An ethos of national purpose has now been replaced by an ethos of individual greed. The nostalgia Tanzanians seems to feel for the past, even for a past that they know was economically difficult, is a measure of the disillusionment that many feel in the present. Many Tanzanians we spoke with seemed to regard their leaders with out and out contempt, as motivated by nothing more than the fact that political office provides such good opportunities for political enrichment.

Public cynicism has bred political instability in other African countries. Numerous military coups, for example, including those of President Rawlings in Ghana, have been justified on the basis of the need to eliminate corruption from the political system. The effect of corruption in such circumstances is to induce a kind of political torpor. Citizens who have become disillusioned and cynical because of the corruption of their political leaders are unlikely to rush to the defense of democratic institutions.

The demoralizing effects of corruption are not confined to Tanzanians, but include the donor community. Members of the donor community have expressed a frustration that has come to be called "donor fatigue."[14] A number of donor organizations believe that their considerable expenditure of funds, going back over a period of many years, has produced little beneficial effect and that one of the principal reasons for this is the hemorrhage of funds through the country's corruption networks. Some donors are convinced that a large portion of their funds may simply have gone to replace the monies that government has lost to corrupt leaders and officials. This is undoubtedly true and will probably continue since corruption on the Tanzanian scale does not lend itself to a timely cure. As a result, the donor frustration level, already high, can be expected to grow even higher.

With all of these negative consequences, it is nevertheless essential to ask whether corruption has had any positive benefits for Tanzania. Two beneficial effects can be discerned: one, economic; and one, political.

The economic benefit has to do with trade liberalization. For all of the trade reforms that have occurred in the past decade, Tanzania continues to have a somewhat protectionist environment. Tariffs on manufactured goods, for example,

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[14] The authors wish to acknowledge Diana Putman for calling our attention to the magnitude of this phenomenon in Tanzania.

average about 25 percent. To the extent that corruption enables importers to avoid those protections that remain legally in force, it produces a more liberal trade environment, one in which the effective tariffs are closer to zero than to the higher nominal rate. Though this does have (as above) an unwanted consequence for the government's revenue collections, freer trade has been helpful in causing older and more inefficient industries to close. In this way, it has hastened the changeover from old to new industries, from industries that depend upon government subsidies and protection to industries that can survive in the new, more globally oriented trading environment.

The second benefit of corruption is political and has to do with the emergence of Tanzanian democracy. In numerous third world countries, and Tanzania is no exception, the most difficult challenge for democracy is how to induce incumbent leaders to leave office. Where the difference between incumbency and non-incumbency is the difference between economic affluence and a substantially poorer lifestyle, this has proven extremely difficult. This approach to democracy is sometimes formulated as the lateral mobility problem: political leaders will not exit the political arena unless they can move side-wise to income levels that either approximate or exceed those they have enjoyed while in office.

Corruption solves the problem. In Tanzania, it has given the highest ranking political leaders of the out-going regime lucrative business investments which will further enrich them once they are out of office. This has lessened considerably their reluctance to leave. There can be little doubt that one basic reason why the presidential succession has proven so effortless in Tanzania has to do with the fact that the out-going president was able to cushion his departure with profitable investments made during his tenure in office.

Poor Infrastructure

Tanzanian business is further constrained by the appalling condition of the country's infrastructure. Business spokespersons complained constantly that it was often difficult to make telephone calls within Dar es Salaam, much less between the national capital and other major cities such as Arusha, Mbeya or Mwanza. Although the road system has seen some major improvements in recent years, other aspects of the country's physical infrastructure are in need of massive up-grading. This is especially true of its energy and water systems.[15]

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[15] The electricity problem does seem to have abated with the installation of two diesel-turbine generators. A potential

Political Weakness

One source of the business community's insecurity is its political weakness. Business leaders feel that they have little or no effective leverage over a government whose actions can spell the difference between success and failure. Ironically, economic liberalization has made some portions of the business community more dependent than ever on state action. The flood of imports unleashed by trade liberalization and poor enforcement of whatever protection remains has caused the older manufacturing sector, organized in the Confederation of Tanzanian Industries, to clamor for more effective enforcement of tariffs.[16] Although the members of this organization have access to the highest-ranking government officials, they feel powerless to affect the business environment in their favor.

This weakness may have less to do with government than with the powerful divisions of economic interests within the business community itself. There is an important split, for example, between manufacturers, who favor protection, and the mercantile sector, which has benefitted greatly from trade liberalization. These divisions are discussed in greater detail in the following section of this report, "Diversity in the Business Community." Internal divisions have made it difficult for the business community to act as a unified force.

The political weakness of the business sector may be a good thing. It is by no means self-evident that all sections of Tanzanian business have a common interest in pressing for continued economic liberalization. Many Tanzanian businesses, not only the SOEs but a number of older, privately held firms, have a lingering preference for the old ways. These are firms that have benefitted from high levels of protection and from sole source economic relationships with the Tanzanian state. The existence of these firms is jeopardized by liberalization and, as a result, they have a powerful interest in opposing change. Their inability to do so effectively has permitted the process of reform to move ahead.

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difficulty here is their extremely high fuel costs. At the time of our visit, there was an adequate fuel supply for only four months of operation.

[16] See Confederation of Tanzania Industries, <u>A Case for Protection of Local Industries</u> (Dar es Salaam: March, 1993).

Political weakness has abetted Tanzania's process of "creative destruction." This phenomenon, described by Joseph Schumpeter nearly sixty years ago, is the basis of economic growth.[17] It involves the steady withdrawal of resources that are tied up in inefficient and outmoded forms of production so that these resources can move toward more dynamic and efficient sectors of the economy. This is precisely the sort of transformation a freer economic environment is expected to bring about. It is a healthy sign when older, under-capitalized enterprises have either begun to close down or seek international partners that could provide a fresh infusion of capital to make their production more competitive. It would be economically unfortunate if those businesses had enough political leverage to slow down the sort of free economic environment that brings this process about.

The Party System

A major part of the political difficulty facing the business community has to do with the nature of Tanzanian multi-partyism. Unlike more mature democracies that have multi-party systems in which the major parties are relatively balanced, Tanzania's party system is lopsided, featuring one major organization, the CCM, and a number of minor ones. The CCM has been in power since independence, is well organized relative to the others, has long established networks of patronage connections throughout the society, and is presently well financed owing to a flow of campaign contributions from the business community. This party is opposed by a number of small parties that are personalistic, organizationally weak, financially precarious, and which typically have popular support only in limited regions of the country. Although important constitutional steps have been taken to create a wall of separation between the governing party and the government, the boundaries are still not clear to many people. For many Tanzanians, especially outside Dar es Salaam, the CCM is the government and the government is the CCM.

In this environment, business has no alternative but to nurture carefully its relationships with the party that controls the state apparatus and which, in the eyes of many citizens, is indistinguishable from government itself. From a political standpoint, Tanzania exhibits a "Catch 22." Opposition parties will not become strong enough to level the playing field until they can obtain financial support from the business community. But the business community is reluctant to

[17] Joseph Schumpeter, Capitalism, Socialism and Democracy (Boston: 1939). See esp. ch. 7, "On Creative Destruction."

expend economic resources on weak organizations that have so little chance of electoral success.

Lost Organizational Skills

The Tanzanian business community has a vast agenda in rebuilding lost organizational skills. The creation of a successful business enterprise requires a host of managerial skills ranging from simple tasks such as book-keeping and equipment procurement to more demanding tasks such as tax accounting and legal handling of matters such as the entitlements of shareholders and the responsibilities of company directors.[18] Most of these skills were present in the distant past. They were lost during the period of state control and now they must be painfully re-learned.

Successful business also requires a host of supportive underlying attitudes including trust, reciprocity and mutuality. Frances Fukuyama, a scholar at the Rand Corporation, has suggested that these attitudes are at the very foundation of the development process. His recent book is an effort to prove that where these are present economic growth and political democracy can be expected; where they are absent, economic atrophy and authoritarian rule are more likely.[19]

Fukuyama's observations resonate deeply with the modern Tanzanian experience. To a very large degree, both the managerial skills and the underlying attitudes of trust were lost during the period of authoritarian socialism. Rebuilding these values will require a considerable period of time. The trust that is most lacking in Tanzania is trust in the government itself. Many members of the Tanzanian business community view the government as a predatory presence. They have little confidence that it will not, once again, seek to nationalize their assets. They see government bureaucrats as economically inept and more inclined toward graft than toward the provision of a sound business habitat. And they are cynical toward a legal system that seems unable to afford them even the most minimal protection. Small wonder that so many members of the business community are oriented toward highly

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[18] One business entrepreneur told us that the principal constraint on his newly acquired sisal plantation was lack of management. He has launched a search for a plantation manager in Mozambique and South Africa.

[19] Francis Fukuyama, Trust: The Social Virtues and the Creation of Prosperity (New York: The Free Press, 1995).

liquid, low risk investments that will afford short-term profit.

A Deficient Legal Environment

A defining attribute of the early transition toward business revival is the fact that much remains to be done to restructure the legal framework so as to create a strengthened enabling environment. Business requires political freedom so that it can lobby and pressure the state in its own interest without fear of reprisal; it must be free to support opposition parties and even create a critical media. But above all else, it must enjoy the benefits of a legal system in which there are laws that clearly spell out the rights of property in productive assets and a court system fully able to assure those rights.

This sort of legal environment does not yet exist. From a legal standpoint, Tanzania is not yet a free society, nor one with laws conducive to business activity. Many of Tanzania's "40 oppressive laws" are still on the books, creating a chilling effect on business entrepreneurs who might wish to support opposition parties or vent their frustrations in the popular press.

Business leaders also feel that they lack a legal system that provides firm grounding for business activity. Such a system would, at a minimum, include laws that clearly spell out the rights of property in productive assets, a court system able to enforce contracts in a timely manner, and a reasonable certainty that persons who commit fraud and embezzlement against them will be arrested and imprisoned. The government's tendency to drag its feet as regards the repeal of old socialist legislation and its tendency to delay the passage of laws appropriate for a market-based economic system further contribute to the difficulty of conducting business and to the perception that Tanzania's economy presents a high degree of investment risk.

Some examples drawn from our interviews may help to illustrate the ways in which legal inadequacies constrain business growth.

Example 1. Grain Marketing.

The manager of a large, privately held, agriculturally oriented business enterprise in Tanzania told us that he had explored the possibility of moving his firm into the area of grain procurement and marketing. Ostensibly, this area of the economy had been liberalized by dramatic reductions in the role of the National Milling Corporation (NMC), the parastatal enterprise formerly responsible for these activities. Our respondent found that the old legislation giving the NMC a monopoly in this area had not been repealed and reform legislation had not been passed by the Tanzanian parliament. The changes that had taken place were largely through executive directives. Technically, any private organization to operate in the Tanzanian grain market might be in violation of the law. His firm's interest in expanding into the grain sector has been adjourned until the legal climate improves.

This episode reveals another important aspect of Tanzania's economic environment; namely, the difference between the reform process as it is understood in the capital city where the interface between the donors and the Tanzanian state takes place, and the reality of economic behavior in other regions of the country. In some regions of the country, where regional commissioners are less than wholly sympathetic with the economic reform process, there have been instances in which these officials have used their authority to compel villagers to sell their grain to a state-managed strategic grain reserve, thereby blocking private traders out of local grain markets. Since farmers are uncertain about whether they will be able to market surplus production freely, they produce less than they otherwise might.

The government's insistence upon maintaining a strategic grain reserve, and its willingness to allow high-ranking administrators to use this reserve to frustrate the full implementation of a more liberal economic environment, betrays its lack of trust in market forces. In contemporary Tanzania, the assumption that government must be ever-present to assure individual welfare is always close to the surface. Members of Tanzania's business community are well aware of this assumption and of that fact that it causes their government to act contrary to its state policies. As a result, they continue to believe that Tanzania's political leaders cannot be depended upon to maintain the present liberal environment.

Example 2. The Coffee Sector

The impact of legal deficiencies on private economic activity can also be underscored by reference to the travails of the coffee sector. Tanzanian coffee production has been stagnant in the past decade, with marketed production varying between 40,000 and 50,000 metric tons. Since growing conditions for high grade coffee are ideal, and since the world market can easily absorb additional volumes of Tanzania's AA grade, there is no objective reason why Tanzania's coffee production should not be double or triple its current level.[20]

Some coffee farmers in the northwestern regions of the country are anxious to expand their estates. Given the high fixed costs of a coffee farm and the considerable economies of scale expansion would make possible, this makes eminent economic sense. The legal obstacle to more efficient land use lies in the fact that the Nationalization Act of 1973, which gives the government authority to nationalize commercial estates of 50 acres or more has not been repealed. The re-privatization of the coffee sector has largely been accomplished administratively, without the appropriate changes in the legal codes. Since anyone whose coffee farm expands above 50 acres is technically liable to be nationalized, there is a reluctance to invest in the purchase and rehabilitation of idle coffee estates.

This problem affects a great deal of highly productive coffee land. Until the early 1970s, the estate sector comprised a substantial proportion of the coffee industry. Some estates were owned by indigenous Tanzanians, others by expatriate farmers. When a number of the coffee estates were nationalized in 1973, they were converted into state corporations under the administrative jurisdiction of nearby primary cooperative societies. The nationalization was typically accomplished by simple administrative seizure. Some owners continued to retain their title documents; other were required to transmit them to the Treasury. When the government took physical possession of the properties, it sometimes provided compensation; sometimes, not.

When the cooperative societies were banned in 1975, the legal position of the coffee estates became even more muddled. They were now state properties without any designated administrative authority. With the restoration of the cooperative movement in the 1980s, it was generally assumed that the state farms were once again under the jurisdiction of primary cooperative societies. But this has not been clarified either in law or in decree. As a result, the property rights and legal entitlements of the cooperative societies are as unclear as those of the former owners.

Some of the primary cooperative societies are presently attempting to divide their estate land into small plots so

[20] The present world market price for Tanzanian AA coffee is approximately $2,300 per metric ton. Each additional 50,000 tons of marketed production, therefore, would yield approximately $120,000,000 in additional export earnings.

that individual peasant farmers can cultivate low investment crops such as corn or sunflowers. But no one seems willing to undertake the higher level of capital investment that would be required to rehabilitate these estates as coffee farms until the legal position of the land is more fully clarified. Uncertainty about this matter thus discourages investment in the country's most important export crop.

The stagnation of Tanzania's coffee sector has numerous causes. But one of the more important is the fact that a vast amount of prime coffee acreage continues to lie in a fallow state while a number of entrepreneurial farmers, anxious to expand their holdings, are deterred from doing so until rights of private property have been better established.

The Tanzanian government's reluctance to implement the reforms needed to stimulate greater coffee production is so striking as to merit special comment. For failure to clarify to land rights is only one of several policy blockages that stand in the way of increased coffee production. Another, discussed below in the section on "Credit, Liquidity and Interest Rates" is the government's insistence that all Tanzanian coffee exports be sold through the bi-weekly auction at Moshi. This requirement prevents licensed coffee buyers in Tanzania, such as the regional cooperatives, from contracting directly with coffee purchasers abroad. As a result of this requirement, the regional cooperatives and other buyers are not able to obligate the proceeds from international sales as collateral for pre-production loans. This has proven to be a major bottleneck in obtaining financing from private banks for the coffee sector.

Policy neglect of the coffee sector has been the cause of poor production performance. Tanzanian coffee production trends contrast dramatically, for example, with Kenya which, despite having less prime quality coffee land available, has at times been able to reach production levels almost three times greater than Tanzania, 130,000 metric tons vs. 40,000-50,000. Given the considerable amount of hard currency earnings available from coffee exports, not to mention the employment benefits to the society and tax benefits to the government, the government's reluctance to reform the coffee sector cannot be explained as mere oversight.

A political explanation does suggest itself. Some of Tanzania's most productive coffee regions, namely Kilimanjaro and Arusha, have been areas of strong opposition to the government. And, although ethnicity has not generally been a significant factor in Tanzanian politics, it may have much to do with the government's treatment of the coffee industry. The Arusha-Kilimanjaro area is principally inhabited by members of the Chagga community and Chagga have long been considered one of the country major sources of opposition to the CCM; the Chagga community, for example, provided two of Tanzania's opposition presidential candidates (Edwin Mtei of Chadema and Augustine Mrema, of NCCR); and one of these, Mrema, became the candidate of the combined opposition parties. It is difficult to avoid the confusion that repression of the coffee sector is at least partially motivated by a desire to squelch economic growth that would benefit an ethnic community well known for its relatively high levels of discontent with the incumbent government.

Example 3. The Wheat Sector

The Parastatal Sector Reform Commission (PSRC) has been seeking to divest itself of ownership of a number of state-owned wheat farms in the Hanang area. Much of the land occupied by these farms was formerly held by small villages. Since modern wheat production demands economies of scale, the inhabitants of these villages were forced to move so that large state farms could be created. The principal obstacle to divestiture of these farms is the fact that the land rights of the former residents are unclear.

The government has several options. It could assign land rights to the evicted villagers. Then, prospective bidders for these farms would anticipate any additional costs this might impose and calculate their bids accordingly. Alternately, the government might simply declare that the purchaser of a government farm is a purchaser in good faith, and that it assumes responsibility for compensating those whose rights were violated. In this scenario, the government would set aside a fraction of the purchase price to pay compensation.

Either option would work just as well. Businesses have no difficulty estimating costs and internalizing them when the policy environment is predictable and well understood. If land purchasers were required to indemnify former occupants, they would calculate the value of the land accordingly. If they were not, they would bid differently.

But in a confused and unpredictable environment, the prudent investor's course of action is no action. No action means no development and that cost is born by all Tanzanians. The government's worst option, then, is to continue the current state of affairs. For until land rights have been established, no one knows what the appropriate price structure for these lands should be, prospective purchasers have no sense that investments will be secure, and development ceases.

The point here is a very simple one. Changes in the legal system to make it more suitable for a market-based system would provide a great boost to the Tanzanian business community, and indirectly to the economy as a whole. This process should begin by the simple act of constructing an inventory of socialist laws that continue to remain on the books. Once that has taken place, the donor community should use its influence to support the legislative activity necessary to repeal the old system and introduce a new one.

The most urgent legal reform has to do with property rights. Tanzania desperately needs legislative progress in passing legislation that will define, clarify, secure and facilitate the sale of property in productive assets, especially land. The present situation is not only confusing to all those involved, but a deterrent to investment and therefore a significant cause of the country's economic doldrums.

In the coffee and sisal regions, the Tanzanian government is offering to lease back to some former owners the properties it took from them during the 1960s and 1970s. It speaks worlds to the sense of futility many Tanzanians feel about their property rights that many of these owners are accepting the leaseback offer as the best available deal under the circumstances.

The government's inattention to land rights does not contribute to a prudential economic environment. It sends any number of wrong signals. One is that the process of liberalization is as ill-considered as the process of nationalization was years ago. Another is that this process does not spring from an internal wellspring of liberal belief on the part of political leaders, but, rather, from the economic leverage of the donor community. And still another signal is that political leaders have not entirely ruled out a return to the old practices.

The growth penalty of all this is considerable. Without a legal system that clarifies and enforces title to property, the market in real property, which could be one of the most important contributors to economic growth, will remain stunted. Other reforms are just as important. Until the legal system has been developed to the point where contracts can be enforced in court, to the point where perpetrators of business fraud can be arrested and tried, and to the point where judges feel free to be neutral as between the interests of the state and the interests of the business sector, Tanzania will continue to be perceived as a high risk environment.

Credit, Liquidity and Interest Rates

Next to the poor legal environment, the business community's most frequent complaint has to do with the difficulty of obtaining credit and with Tanzania Shilling (TShs) borrowing interest rates that vary between 40 percent and 50 percent. Since Tanzania's inflation rate is generally estimated at about 30 percent, these seemingly high nominal interest rates convert into real interest rates of only about 10 percent or slightly more. Given the riskiness of Tanzania's business environment, this is not unreasonable. But high nominal rates, by themselves, are a psychological deterrent because inflation makes the business environment feel unpredictable. Many business owners feel that they cannot earn a profit on money that is borrowed at that rate and, as a result, they do not bother to apply for loans.

The interest rate problem has several different facets. The first has to do with inflation. Although Tanzania's inflation rate is not high by comparison with the hyper-inflation experienced in the past by a number of Latin American countries, it is still worrisome. Since inflation is caused by central government budget deficits, it sends another negative signal to the business community; namely that the government is unwilling or unable to create a more favorable economic environment by imposing fiscal discipline upon itself.

The second aspect of the interest rate problem has to do with the tendency of government borrowing from the banking system to "crowd out" private borrowing. Several private bankers we spoke with indicated their strong preference for holding government bonds over lending to the private business community. This is wholly understandable. Government bonds pay in the range of to 50 percent interest, can be acquired without the high 40 percent transaction costs associated with lending to private businesses, and are relatively secure in comparison to loans to private firms. If the private banks were willing to lend to small private businesses, the interest rate on government bonds would establish the baseline over which independent businesses would have to pay a risk premium.

The economic logjam, again, is caused by the behavior of government. Until the Tanzanian government curbs its fiscal deficits, it will not lower the inflation rate. Until it lowers the inflation rate, it will be required to pay high interest rates on government bonds. And so long as these bonds are available, they will crowd out borrowers seeking loans for productive enterprise.

This problem is further compounded by the liquidity problems of the Tanzanian banking system, especially those of

Tanzania's state-owned commercial bank, the National Bank of Commerce (NBC), which has always been the lender of first resort to indigenous enterprise. The NBC is presently insolvent because it holds so many of the debts of the bankrupt SOEs. Tanzania's private banks are reluctant to lend to Tanzanian business enterprises because they prefer to hold government bonds or to make loans to multi-national firms with solid credit histories.

There is one major exception. Tanzania's private banks have begun to make pre-export loans for certain of the country's major cash crops, cashews and cotton. Indeed, the ready availability of private credit for these two commodities may help explain why they are enjoying boom conditions while coffee is not. The critical difference between the cotton and cashew industries, on the one hand, and coffee, on the other, is structural. In the former, regional cooperative societies which buy from producers and from primary cooperative societies can export directly to international markets. They are thus in a position to obligate the proceeds from international sales as collateral for a loan to help finance production and harvesting. The banks are secure because they can arrange to have the payment for the crop deposited directly to a collection account either in Tanzania or overseas.

The coffee industry is structured differently. Here, the government insists that the entire crop pass through the bi-weekly coffee auction at Moshi. Neither the regional cooperatives nor private buyers who purchase from farmers are allowed to export directly.[21] They are thus not in a position to obligate the proceeds from international sales. Since the international exporter may be different than the regional cooperative society which is expected to assist in the production process, bank loans whose purpose is to help with pre-sales costs are not feasible.

The government could solve this problem by simply making the auction optional rather than required. Exactly why it continues to insist on the auction monopoly of sales for coffee while allowing direct exportation of other crops is unclear. The official justification is to see to it that

[21] Tanzania has two sets of licensed coffee buyers. One group of buyers is authorized to purchase from farmer or cooperative societies. The other is licensed to purchase coffee at the auction. Although there is some overlap between the two groups, the qualifications are different. To be licensed to buy at the auction, for example, a buying firm must show that has a certified liquorer.

farmers obtain the highest possible realization from sales. But this has not prevented a widening of sales options in the other industries.

The more likely explanation is purely political: the Tanzanian government has always felt it necessary to maintain tight rein over the coffee industry and has shown great reluctance to abandon this even during a liberal era. The above discussion of the coffee industry -- see "Example 2. The Coffee Sector"-- suggested that the government is reluctant to see members of the Chagga community, who are generally considered to be favorable to the opposition political parties, benefit financially from economic growth. The government's political concern would be very straightforward. If the coffee sector booms, some of the proceeds from that boom would undoubtedly go to finance the political opposition.

The result of controls on the allowable method for coffee exports, however, is the existence a serious credit constraint on coffee production while no such constraint operates for cashews and cotton.

The movement of the private banks into export financing is the seed of Tanzania's economic future. It can be expected to grow considerably in the years to come. What is so striking about the cashew and cotton examples was the ease with which the liquidity problem was solved. It simply required a policy reform that made it legally possible to have secure collateral for pre-production loans; in this case, a binding title to the proceeds from an international crop sale. If this problem could be addressed in other sectors of the Tanzanian economy, it would do much to ameliorate the credit crisis there as well.

The growing role of the private banks in providing agricultural sector finance casts doubt on the very notion of a broad liquidity crisis. So do several other features of the economy. One is that Tanzania appears to be highly liquid in U.S. dollars, so liquid in fact that the Shilling/Dollar exchange rate has remained stable for about a year despite Tanzania's problem of inflation. A second is that the supply of shillings seems sufficiently abundant to finance booming growth in the construction sector as well as in formal and informal sector trading activity, not to mention tourism and certain exports.

Tanzania's liquidity difficulty may be more accurately viewed as a combination of high interest rates, the "crowding out" of private borrowers by government bonds, and a policy regime that continues to make it difficult for prospective borrowers to establish solid collateral for loans.

The insolvency of the NBC is only one piece, albeit a significant one, of the credit shortage puzzle. Until this puzzle is solved, however, the NBC will undoubtedly remain the most important lender to the Tanzanian business community. But the NBC is in severe administrative disarray. Like so many state enterprises in Tanzania, it is overstaffed, suffers from poor to non-existent record-keeping, and has been the scene of flagrant mismanagement and corruption. Despite its many and severe shortcomings, the NBC is still Tanzania's most important commercial bank. It accounts for approximately 80 percent of loans to business enterprise within Tanzania and about 75 percent of bank deposits. It is a genuinely national bank with branches throughout the country; its personnel are familiar with Tanzanian business and especially the agricultural and indigenous productive sectors; and, in sheer scale, it continues to overshadow the new private banks which are only just beginning to establish themselves.

The lesson is clear: for the time being at least, an important part of the problem of credit for Tanzanian business rests with the National Bank of Commerce. The Government of Tanzania has undertaken several steps to deal with the NBC's problems. But thus far these do not appear to have been adequate to the task at hand.

The first was to create a new agency called the Loans and Advances Realization Trust (LART). Part of LART's mandate was to relieve the NBC of its huge burden of non-performing loans. The procedure for doing so was a fairly simple one that had been used successfully in other African countries including Ghana. LART would acquire the bad loans and, in return, the Treasury would issue special bonds to the NBC. Although these bonds would pay a relatively low interest rate of about 11 percent, and could not be traded in secondary markets, the bonds would constitute performing assets and would thus help the NBC to shore up its ratio of performing to non-performing assets. The debt for bonds swap would cover loans made up to mid-1991 and since the NBC was technically under a strict prohibition not to make any further loans to insolvent SOEs, this procedure would be a significant step forward in making the NBC once again a solvent institution.

The fatal flaw in the LART procedure was the assumption that the NBC could bring itself to stop making bad loans to politically well connected SOEs. According to one informant, "bad paper simply continued to materialize." Additional loans were discovered that were dated before mid-1991. And new loans continued to be made to insolvent corporations after that date, sometimes by regional branches, sometimes by the NBC's central office. In either case, the non-performing loans that

LART absorbed were quickly replaced by a whole new wave of non-performing loans.

The logical step would be to create a new LART, or LART II. The weakness in this procedure is all too obvious: there is no certainty whatsoever that the process of making non-performing loans to politically well positioned SOEs will stop until the NBC has undergone a fundamental reorganization. The NBC is presently undergoing just such a process, one that will involve radical downsizing including substantial layoffs and the closure of a number of rural branches.[22] The goal of the NBC reform process, which is presently underway under the auspices and monitoring of the World Bank, is to make the NBC a fully solvent institution, able to play an important role in making credit available to Tanzanian business enterprise.

Even if all goes well, this process can be expected to take several years. Until the NBC's reorganization is complete, however, Tanzanian business, especially small indigenous businesses that do not have other credit sources, can be expected to suffer from an on-going credit constraint.

It is doubtful that all will go well. Opposition from the trade unions, the army, and other politically influential borrowers has already surfaced.[23] The trade unions, for example, have a redundancy agreement that will make staff layoffs a lengthy and expensive process. The unions have also been critical of the Bank's policy of hiring expatriate experts to supervise the restructuring process.[24] Political opposition to reform of the NBC is already so great that the government has announced a review of the process and indicated its willingness to reconsider both the number of branch closures and the issue of staff redundancies.

Continuing the NBC reforms will require an act of powerful political will on the part of Tanzania's incoming government, that of newly elected President Benjamin Mkapa. Technical solutions and structural reform are essential and helpful. But no amount of downsizing, whether of staff or redundant branches, will stop the flow of poor, politically based loans unless the new government is genuine in its intention to eliminate corruption in the NBC's operations. A

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[22] See The Business Times (Dar es Salaam), November 12, 1995.

[23] See The Guardian (Dar es Salaam), Thursday, November 16, 1995.

[24] The Guardian (Dar es Salaam), November 17, 1995.

host of political questions therefore must remain presently unanswered. But these basically reduce to one. Will the newly elected government put the economic reform process back on track? Or will it lapse gradually toward the old style of economic management, a politically determined allocation of economic resources.

Tanzanians, donors, and international and domestic business investors are presently awaiting answers to these questions, and will take their cues from the ministerial appointments made by the in-coming president.

Even if the new government moves to reset the reform process, there will continue to be serious bottlenecks in the banking system. One of these has already become apparent; namely, the scarcity of personnel experienced in risk-based lending. The most salient feature of the NBC's past lending relationship to Tanzania's state owned enterprises was that loans were made in a risk-free environment. Typically, the SOEs had a letter of credit guaranteed by the government. Lending officers simply pushed bags of money across the transom on the basis of this guarantee. There was no need to develop a pool of skilled personnel able to assess risk and make loans on the basis of credit worthiness.

When the NBC has finally solved its administrative and financial problems, and is able to resume a program of lending to Tanzanian business, that skill will be in short supply. Based on the experience of other countries, we can anticipate that a host of problems will arise. Lending officers will need to have many basic questions answered. Will a lending officer be fired if he or she makes a bad loan? Given Tanzania's poor legal environment, what are the best measurements of credit worthiness and risk?

Training in private banking practices and risk assessment provides USAID with an opportunity for a highly strategic intervention in the Tanzanian development process. Since we are not familiar with the constraints and guidelines that determine precisely how USAID can employ its own resources, it is not presently clear to us how this intervention might best occur. But it is clear to us that Tanzania will have an urgent need for personnel with training in risk assessment and in the management of banking institutions where loans are made on that basis.

There is an additional problem. Even if it is fully rehabilitated, the NBC will still be a large scale national bank operating on a commercial basis. This characteristic alone will make it difficult for the bank to deal with small-scale Tanzanian enterprises, some of whom may even be discouraged by the level of literacy required to fill out a loan application form. Thus, there remains a critical need not only to devise short-term solutions to address the credit squeeze, but solutions that specifically address the needs of small business. USAID, other donors, and various NGOs are making efforts in the important area; many of the people we talked to in this regard stressed the enormity of the task and the major limitations of available resources.

Another possibility is well worth considering: allow the exchange bureaus to become small scale lending institutions. They would be ideal for such a role. They are small face-to-face operations that have already gained considerable experience in financial transactions. Their proprietors are in a position to undertake careful risk assessment. And with only the most modest changes in the law establishing the exchange bureau system, these bureaus could develop customer relationships that might include both savings services and modest lending activities. Although the racial background of many exchange bureau owners might present a source of difficulty, such a development could contribute greatly to easing the credit problems of small businesses that are daunted by dealings with large bureaucratic institutions.

Until all these problems are dealt with, businesses in Tanzania will treat their investments as high risk activities. They will not only expect a risk premium on invested capital, but they will continue to pursue hedging strategies that involve keeping as much of their capital out of the country at any given time as is feasible. The result will be a rate of economic growth that is far below the country's real potential, and one that is inadequate to generate meaningful improvements in the material lives of its citizens.

V. <u>Diversity in the Tanzanian Business Community</u>

The best point of departure for understanding diversity within the Tanzanian business community today is to understand that the business environment is a dynamic one. A number of dramatic changes are taking place. First, the government's economic reforms, which have included restrictions on bank lending and budget subsidies to the SOEs have been partially effective, resulting in the closure of a number of SOEs. Some of these have been successfully divested and privatized; others, not. Those that have not found investors lie in a derelict state, ghostly relics of a past era.

The significance of this process is that the market niche these SOEs once occupied in the economy is now vacant. It is being taken over by new private enterprises or by imported goods. Many respondents to our study complained about the slow pace of privatization in Tanzania. Their complaints are correct but miss a vital point. It is essential to distinguish between the closure of an enterprise and its privatization. From an economic standpoint, the closure of an inefficient enterprise is a step forward even if it is not purchased by someone who intends to keep it in production.

A major requisite of a growing economy is that it be able to withdraw economic resources from inefficient uses so that these may be employed more productively elsewhere in the economy. During the past 18 months, the Tanzanian economy has demonstrated that this process is well underway. An economy that is moving from sickness to health can exhibit symptoms of deepening illness during the early stages of its recovery. These might include rising unemployment and an increase in unutilized industrial capacity. It is imperative not to draw the wrong conclusions from this. These phenomena are not only healthy but essential if they arise from the closure of inefficient, under-capitalized industries that previously survived on the basis of government subsidies and protection.

The second element of change in the Tanzanian economy is that despite the country's difficult business environment, new productive enterprises are springing up. There are new factories producing shoes, plastic products, plastic shipping bags, and a host of other consumer items. Some of Tanzania's older enterprises, both privately owned and SOEs, are in the process of taking on international partners who have invested in up-grading production facilities or intend to do so. Tanzania's beer, cigarette and soap industries are examples. The installation of new productive facilities extends to the agricultural sector as well. Despite stagnation in the volume of coffee production, new, privately owned coffee curing plants are in operation in Arusha and Bukoba. There are new cotton ginneries in Mwanza. And even the most casual traveler from Dar es Salaam to Arusha can confirm that sisal and coffee plantations are being rehabilitated.

Some of the more salient characteristics of Tanzania's business sector today can be summarized as follows:

- internal divisions that prevent business from speaking with a single voice, the major divisions being those between old and new style businesses, between trading and manufacturing interests and, to some degree, between business entrepreneurs of indigenous descent and those of Indo-Pakistani descent (Asians).

- a perception on the part of manufacturers that traders have successfully corrupted the political system to allow the unlimited and unregulated importation of goods that compete with and economically undermine local manufacturing.

- the absence of a sense that the economic well being of the business sector can be improved by greater democratization of the political system. Business leaders see their most effective contacts with government as being through informal, extra-institutional channels.

Old Versus New Enterprises

This first division of importance within the Tanzanian business community is that between the old and the new. Some private businesses not only survived during the socialist era but managed to thrive. They did so, however, principally on the basis of political connections that made it possible to obtain loans from the banking system (that were often not repaid), protection from foreign competition, subsidized inputs, and lucrative sub-contracts with government corporations and ministries.

In a number of respects, the older companies that survived the socialist era bore a striking resemblance to the state enterprises of the same period. Consider, for example, IPP Enterprises, which is nominally a privately held company. Like the SOEs, IPP could just as easily be viewed as a virtual ward of the Tanzanian state. It emerged from the socialist era burdened by huge debts to the banking system, operating with production facilities that were so inefficient as to be uncompetitive in a liberalized trade environment, and lacking the capital liquidity to modernize aging plant.

A second similarity has to do with product inventory. The list of IPP products includes consumer non-durable products such as soaps, toothpaste and shampoo; household goods such as cleansers, kitchen utensils, plastic dinnerware and cleaning equipment; and paper and stationary products including ball point pens, napkins and toilet paper; and beverages including soft drinks. The most striking feature of this list is that it is identical to the list of products on which Tanzania, like numerous other African countries, sought to build an import substitution strategy.

The second characteristic of these products, as any economist could attest, is that they are goods in which Tanzania has a very low comparative advantage. Their production is dependent almost entirely on expensive imported inputs and given Tanzania's high labor costs (relative to labor productivity), industries based on the production of these items would normally have little chance of survival under a more open trade regime. Small wonder that the owner of IPP group was among the founder-members of the Confederation of Tanzania Industries (CTI) or that he has been among Tanzania's most outspoken advocates of industrial protection.[25]

During the socialist era, then, the state and private enterprises had many common characteristics. Their differing legal form of ownership was far less important than the fact that both required the high barriers to imports that the government erected. Businesses like IPP were able to fit into the market niche the government created for its own SOEs and, through close personal connections with government leaders, they were able to carve out a share of the market within this niche. Once trade protection was removed during the present era of reform, both state and private enterprises alike began to suffer from the flood of imports.

The commonality of experience during liberalization is also striking. State enterprises based on import substitution have gone bankrupt; IPP has also been unable to repay its debts to the banking system and both have been unable to raise sufficient capital to modernize without foreign investment. Both have eagerly joined with foreign partners. Tanzania Breweries, an SOE, has formed a partnership with a privately owned South African brewery to so that it can compete with the

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[25] One of our informants continually referred to the members of CTI as parastatals even though they are nominally privately held firms. This was of course technically incorrect but very revealing. Another respondent, with considerable passion, made the disparaging point that the head of IPP is simply not a capitalist entrepreneur.

imports of high quality European beers. Tanzania Cigarette Company, though nominally a profitable parastatal, has found itself struggling with competition from imported cigarettes and has formed an alliance with R. J. Reynolds Co. to modernize its antiquated plant. And portions of IPP, a privately held company, have been sold to Colgate Palmolive, which plans to modernize IPP factories so that its soaps, shampoos and toothpaste can compete more effectively with imported products.

The new private industries that are beginning to take root in Tanzania bear a superficial resemblance to the old ones in that they are privately held and may happen to produce the same mix of products. Beyond that, any resemblance ceases and the differences become far more striking. The first difference is that the new firms have been capitalized outside the Tanzanian banking system and thus have no indebtedness to the NBC. Second, they have taken root during an era of trade liberalization and thrive in an internationally competitive environment. And, third, they are far less dependent upon the Tanzanian state. Although they have to deal with the government for such requisites as permits, licenses, land leases and tax payments, they do not depend upon state for protection, loans or government contracts.

The difference between old and new business enterprises has nothing to do with economic function. The new industries choose their product mix from exactly the same list as the old ones; that is, the consumer non-durables including plastic products, soaps, beverages, paper products, shoes, etc.. But, in contrast to the older firms producing these products, the new ones are financially solvent, able to draw on foreign as well as domestic capital sources, and acclimated to the competitive pressures that global trade has induced. One of these firms, which is constructing a new factory to manufacture plastic packaging, has imported its machinery from India and Italy, has capital resources in the United States, Italy and Canada, and, unlike the older firms which are wholly oriented toward Tanzania, anticipates further capital investments in other African countries such as Mozambique.

The final difference is in political orientation. Whereas the leaders of the old firms are perfectly comfortable in the Tanzanian political setting, and often aspire to higher political office within Tanzania, the leaders of the new firms see themselves in more global terms, as holders of business assets in a wide variety of countries, in all of which they are equally comfortable and at home.

Trading Versus Manufacturing

The most visible cleavage within the business community is that between trading and manufacturing sectors. This division may also be the most politically debilitating because the economic interests of these two groups seem so diametrically opposed. The first difference has to do with protection. Generally, Tanzanian manufacturers seek protection. But older and newer firms do not have a single voice on this issue. The older manufacturing firms in Tanzania are heavily dependent upon protection; these firms form the active core of the CTI. The new companies might prefer protection if it were available but do not depend upon it and are perfectly prepared to do without it as long as corruption can lower their costs. Despite marginal differences on this issue, all manufacturers have some economic interest in obtaining better tariff enforcement.

Traders, on the other hand, seek maximum freedom to import. Their economic interest lies in minimizing governmental restriction on the importation of goods and their lobbying efforts are extended in the direction of minimizing barriers to trade. In Tanzania, the trading community has been so successful in avoiding trade restrictions that older segments of the manufacturing sector are in jeopardy.

The porosity of the trading system arises from the enforcement weaknesses of the state as tariff collection has fallen prone to a pattern of corruption that reaches from the highest levels of governmental officialdom to the lowest. The President and his cabinet ministers collude with importers who wish to evade tariffs and other trade restrictions as do officials at the lowest levels of the enforcement bureaucracy. The problem of customs evasion is so widespread and so entrenched that the remedies required to correct it can be expected to take an extended period of time.

The problem has many of the attributes of a self-perpetuating cycle. Tanzania depends upon tariff revenues for a sizable portion of its total revenue collection. Without these, the treasury is starved of fiscal resources. So long as this situation continues, salaries of public officials must be kept low. And as long as salaries are not adequate, civil servants will continue to consider bribes an indispensable part of their income. This, in turn, means low tariff collection and continuing pressure on fiscal reserves. It would be unrealistic to expect low ranking customs officers to insist upon enforcing the tariff code when they see those at the highest levels of government enriching themselves at the expense of the customs system.[26]

[26] The level of bribe has almost become standardized at 10 percent customs savings. A bribe of 500,000 TShs. evades a

The sectoral division between traders and manufacturers in Tanzania is organizationally reflected in the existence of two separate business associations, the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA) and the Confederation of Tanzania Industries (CTI). The TCCIA is, despite its name, composed principally of Tanzanians involved in trade and agriculture, both of which have emerged as "winners" from the process of economic liberalization. The economic forces that drive the TCCIA are somewhat obscured by the flamboyant personality of its current president, David Mwaibula. But a close inspection basically reveals that the TCCIA is positioning itself to become the political voice of Tanzania's international comparative advantage. Mwaibula is openly critical of protectionism and believes that Tanzania should position itself for membership in the World Trade Organization.

The political agenda of the TCCIA is to gain representation in all those councils of government where decisions affecting the private sector are made. The economic purpose to be served would be to see to it that Tanzania institutionalizes an outward-looking orientation. Mwaibula is concerned that creeping protectionism not jeopardize Tanzania's status in the global trading community. The TCCIA enjoys close ties with the government but its principal energies are directed toward expanding the TCCIA in those regions of the country where the businesses of the future, such as tourism, minerals extraction and high value export crops, are likely to be important.

The Confederation of Tanzanian Industries (CTI) is composed principally of older, large-scale Tanzanian manufacturers. Its members and leaders consistently seek and obtain contact with government officials but regard this contact as ineffective. CTI spokespersons express frustration at the failure of their efforts to obtain tariff protection and suggest openly that this is a result of the corrupt links between high government officials and the trading community.

The essential difference between these organizations can best be conveyed by the distinction between "sunrise" and "sunset" industries. The TCCIA is the organization of Tanzania's economic sunrise; the CTI, its sunset. The thematic viewpoints of the two organizations reflect these differences. For spokespersons of the CTI, Tanzania's economic difficulties arise from the fact that free trade is strangling Tanzania's

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tariff charge of TShs. 5,000,000. The net loss to the government is 90 percent of duties owed.

manufacturing sector. For the TCCIA, Tanzania's principal economic difficulty lies in the fact that it is not devoting sufficient resources to the development of its comparative advantage industries.

The Political Economy of Protection

Tanzanian manufacturers complained to us that, due to poor enforcement of the country's tariff system, the effective rate of protection on imported goods is at or close to zero. We see no reason to disagree with this proposition. The World Bank concurs with this analysis as do hapless officials of the Tanzanian customs service. And even the most casual tourist would be able to observe the astonishing array of inexpensive imported goods being hawked by itinerant street vendors. Importers seem able to bring goods in freely while paying duties at most on a small fraction.

Zanzibar appears to play a significant role in this. There is abundant evidence of a steady torrent of goods smuggled across the narrow strait from Zanzibar, where even official duties are extremely low, to the Tanzanian mainland. But Zanzibar's role is subject to exaggeration. Even if the Zanzibar problem were to disappear, Tanzania's inability to control and tax the flow of duty-free imports into the country would remain a serious problem. An officer of the Tanzanian customs service freely acknowledged that many of the goods which come into the country duty-free because they are officially destined for nearby countries such as Zambia, Malawi or eastern Zaire, seem to filter out of bonded warehouses into the Tanzanian marketplace.

Is Tanzania's de facto status as a duty-free port a good or bad thing for the national economy? The answer is mixed. One result is revenue starvation. The fiscal crisis of the Tanzanian state is a result of inadequate revenue collection to a far greater degree than it is a result of over-expenditure. Indeed, it makes almost no sense to entertain the idea of over-expenditure in a country whose schools and hospitals can barely open their doors, whose road system depends upon donor contributions, whose system of telecommunications dates back to colonial times, and whose highest ranking cabinet officers can barely reach one another by telephone during business hours. Although there may be some gains to be made on the expenditure side by retrenching redundant staff, or cutting back on the armed forces, the real solutions to Tanzania's fiscal imbalances lie in improving the country's tax, tariff, and excise collections.

The second consequence of duty-free importation has to do with the extent to which it has forced the closure of a number of Tanzanian manufacturing industries, including both SOEs and a number of older private companies. Contrary to the views of those who see this closure as an unwanted and undesirable consequence of structural adjustment, it is, in fact, a major sign of progress. Far from being an unwanted consequence of freer trade, the shutdown of obsolete and inefficient factories was essential if Tanzania was to attain a positive rate of economic growth.

The vast majority of the industries that have closed fall in this category. They were inefficient, deeply in debt, under-capitalized and able to survive in the past only through high levels of government subsidy and protection. This is not the sort of industrial base that is appropriate for a country that is about to participate more actively in the global trading system. Even more importantly, they had been able to survive only because the previous government subsidized them with gigantic economic transfers from the agricultural sector. The older SOE industrial system, in other words, was made possible only through onerous levels of taxation on rural producers, especially producers of export crops.

The old industries are dying because they can no longer depend upon a system of taxation that penalizes agriculture to produce the illusion of urban industrial prosperity. Their demise is an indication that Tanzania's economic resources are now free to flow to the economic sectors where they probably should have been lodged all along; namely high value export agriculture, minerals extraction, tourism and export processing. It is not an accident that some of Tanzania's traditional exports, especially sisal, cashews and cotton are now flourishing and that coffee would do the same with only the most minor policy adjustments. An economic perspective that focusses only on the health of urban industries and that fails to address the basic inter-connectedness between urban industry and export-oriented agriculture does not capture this vital linkage.

To the extent that the demise of the older industries has set the stage for the emergence of new more efficient ones, their death by import strangulation is a good thing. Tanzania is a high wage country despite superficial appearances to the contrary. This is partly a result of low labor productivity, which is itself a product of low levels of investment in human capital formation (a poor educational system). But it has more to do with the potentially high returns to labor available in the agricultural sector. Because Tanzania has so much available land, small-scale farming constitutes an attractive shadow market for labor. To attract workers, urban industries would have to pay a higher real wage than the shadow market level. Under equilibrium economic conditions (no government interference), the only industries that could survive on their own in Tanzania would need to be highly capital intensive and efficient.

Those who initiated Tanzania's massive system of SOEs, as well as the private companies that mimicked the SOE sector, either never knew this economic reality or chose to ignore it. In adopting a capital intensive strategy that employs the most modern machinery to compensate for the low productivity of labor, Tanzania's new industries are avoiding this mistake.

If the incoming Tanzanian government is serious about economic growth, it will ignore the appeals of those who feel that the state has a developmental role to play in fostering an urban industrial sector. Should it choose that course, even in a new policy form, it would only be repeating the policy error of the past; namely, the introduction of hidden forms of economic discrimination against export agriculture.

What all this adds up to is that the present government of Tanzania is pursuing appropriate economic policies, albeit for blatantly inappropriate reasons. Because of corruption at the ministerial level and in the customs service, it is not engaging in protection of its industrial sector. This exposes its industries to the discipline of international competition forcing the closure of those that are inefficient due to under-capitalization. Owing to corruption in the excise tax collection area, it is also failing to tax domestically produced goods at the retail level. The irony is that the government's inability to collect this tax levels the playing field as between imports and domestically produced goods.

The government of Tanzania thus has one overriding policy problem to address. It desperately needs to expand its revenue base. We understand that USAID studies are already underway that will help enable it to do so and that USAID may well become involved in this process. This would be a welcome development. Tax collection is an administrative challenge for which USAID could provide a valuable contribution.

The economic challenge will be to devise appropriate forms of tax collection for a country that is seeking to boost its growth rate above the current level of 4-5 percent. The optimal economic rule is one of policy neutrality, to devise tax and tariff policies that do not discriminate as between urban industry and agricultural exports. The Tanzanian government should neither subsidize nor tax the one at the expense of the other. It should not forget the mistakes of the past when government leaders believed that the government could stimulate the industrial sector by taxing its agricultural base. The way to avoid this mistake in the future is not, as some have assumed, to direct economic resources toward agriculture, but to select forms and levels of taxation that allow economic resources to flow freely to their own best use.

Asian Versus Indigenous Enterprise

Within Tanzania there is a perception that the manufacturer/trader cleavage has racial dimensions. To deal with this matter, it is best to begin with this perception in its crudest and most vulgar form. The racial stereotype of Asians holds that Asians monopolize the Tanzanian trading and merchandizing communities; that they engage in illegal and unscrupulous business practices in order to make short-term profits, portions of which they squirrel away in overseas banks; that in doing so they have contributed greatly to the problem of corruption in the Tanzanian bureaucracy; and that their ties of kith and kin to India, the United Kingdom, and elsewhere give Asian businesses an unfair economic advantage such as the opportunity to borrow capital from family firms at low interest rates.

An integral part of this perception is the notion that Asians are more interested in maximizing their short-term personal wealth than the welfare of Tanzanian Africans and, as a result, that they do not invest in slow-maturing, fixed assets but keep their wealth in trading ventures where large profits can be earned quickly.

To deal with this stereotype, several important points need to be made. First, racial bigotry in this extreme form is becoming rarer. This could not have been said as recently as two to three years ago when the political movement of Reverend Christopher Mtikila, the most outspoken of Tanzania's anti-Asian political leaders, seemed to be riding a wave of surging popularity. In his well attended speeches, he had even invented a race-baiting code language for Asians, "magabacholi" (roughly translated as small animals that bite). His movement has since declined rapidly, indicating the limited and diminishing appeal of anti-Asian views to many Tanzanians. A Tanzanian political scientist explained the decline of the Mtikila movement (now the Democratic Party) by saying simply "this is not Tanzanian."

His point, that Tanzanian political culture does not provide a hospitable environment for racial intolerance, should be given much credence. The governing party has consistently refused to make race an issue in Tanzanian politics, has constantly presented itself to the Tanzanian electorate as a multi-racial organization, and has, on a number of occasions, successfully nominated Asian candidates in African constituencies. Indeed, the CCM has used whatever moral credibility it possesses to create a non-racial political climate in which the overriding identity is Tanzanian nationality.

Tanzania's culture of racial tolerance has been further abetted by awareness of the political violence that has arisen from ethnic politics in surrounding countries such as Rwanda, Burundi, Uganda and, increasingly, Kenya. Tanzanians are emphatic that they do not want this to happen here. The majority of Tanzanians we spoke with had subtle and complex views on the racial issue. Several respondents insisted that race was simply not an appropriate or productive way to approach an understanding of Tanzanian business. As a result of our conversations, we became convinced that racially cross-cutting economic categories -- old versus new enterprises, trading versus manufacturing, informal versus formal sectors -- provide a more illuminating way to construct a profile of diversity in Tanzania's business sector.

One recurrent theme in these interviews was indigenous Tanzanians' willingness to acknowledge that Asians had been traumatized repeatedly in the past; as when their plantations and farms were nationalized in 1971; when their commercial real estate assets were nationalized in 1972; and, in 1983, when many members of the community were arrested and imprisoned during the "anti-saboteurs" campaign. A number of Africans told us that if there is a tendency for Asians to prefer highly liquid trade ventures over investments in fixed assets, this needs to be understood in the context of their past traumas.

A number of Tanzanians also stressed that the simplified stereotype of Asians avoiding investments in fixed assets is simply untrue. Some Tanzanians are deeply aware that many members of the Asian community have invested in factories and plantations, and that some of the largest Asian firms are highly diversified conglomerates which include a combination of trade and productive ventures. Some also indicated that there are many middle class Asians and that Asians are also to be found in manual professions such as computer technicians, mechanics, electricians, and plumbers.

Members of the Asian community are, of course, aware of the racial issue and extremely sensitive to it. Any number went out of their way to prove their willingness to invest in fixed assets such as factories and plantations. One member of the Asian community, recently immigrated to Tanzania from Zaire, took us on a personal tour of several factories in which he has invested several million U. S. dollars. One, already in production, is producing inexpensive plastic shoes for the Tanzanian market. Its products have been so popular with Tanzanian consumers that he is presently enlarging its capacity and adding an adjacent factory to produce plastic products for household and industrial use. His second plant, still under construction, will produce plastic bags for packaging grains. When completed, this factory will be able to supply almost all of Tanzania's needs, thereby practically eliminating the need for imports. Together, both factories will employ nearly a thousand workers.

Other Asian business leaders made an equally emphatic point about their willingness to invest in fixed assets. The Karimjee family, for example, discusses this matter openly and on the record. It has produced an attractive brochure detailing its extensive holdings in sisal, tea and cashew production. Other Asian families have invested heavily in the production of these crops by rehabilitating plantations that were nationalized during the 1970s.

The fact of the matter is that the stereotype of Asians as unwilling to invest in fixed assets is simply untrue. A growing number of Tanzanians are aware of that fact and of its importance to the Tanzanian economy. Their awareness is helping to diminish the racial myth.

Members of the Asian community are especially sensitive to allegations of corruption. Nevertheless, practically all of our Asian respondents acknowledged that it is a problem, at least to the degree that their community has its share of bad actors just as any other community does. Some articulated a distinction between the "honest many", who have a fundamental concern for Tanzania and its long-term development, would prefer to avoid corruption and have taken steps to reduce it, and the "dishonest few" whose conduct gives the community as a whole a bad name. The story of the dishonest few, as we were told it on several occasions, was that many Asians became bitter at the wave of nationalizations in the 1970s and left the country. Among those who have returned, there is said to be an angry minority who are here solely to get back, in whatever way they can, the wealth they feel was unjustly taken from them.

No one denied that there are members of the Asian community who have created corrupt ties with Tanzania's highest ranking political leaders. But there is bitter resentment of the presumption that when an Asian pays a bribe to an African, it is the Asian community that must be held accountable, as if the process involved the victimization of an innocent society. Asian business persons emphasize that corruption has become so endemic in the Tanzanian bureaucracy that it is impossible to avoid. One Asian importer claimed that Tanzanian customs officials have become so greedy that it is now more difficult to pay a tax than to pay a bribe. And another said "they are forcing us to do things we shouldn't be doing." Still others expressed deep frustration that Tanzania's corrupt environment had forced them to diminish themselves by becoming cheats.

There is ample basis for this indignation. Business generally has no interest in a corrupt bureaucracy and prefers a political milieu in which laws are understood, enforced and obeyed by all. Such an environment is more predictable and less expensive. If an orderly environment does not exist, businesses are prepared to take their political milieu as a given and adapt to it accordingly. If it is corrupt, businesses will adapt to the corruption. One highly successful Asian entrepreneur pointed out that his firm is a multi-national conglomerate with investments in the United States, Canada and Europe as well as Tanzania. Only in Tanzania, he said, are side payments to corrupt officials a necessary part of doing business.

Asians are also deeply sensitive to the fact that they are lumped together as if they were a single community when in fact the cultural divisions within the Asian minority are at least as large as those between Asian and African Tanzanians. The misperception of Asians as a single, relatively unified community is important because it has been taken as an indication that the leaders of the "Asian community, which by the estimates of several Asian respondents is in the neighborhood of 80,000 people or 0.3 percent of the country's current estimated population of 27 million, have somehow failed in their responsibility to discipline the behavior of the community as a whole. One Asian business person resented that he had been asked by a member of the World Bank staff to use his position of leadership to stop Asians from corrupting the customs service. Even the Bank seemed unaware that his position involved only one Asian sub-community. His answer, of course, was "which Asians?" Muslims? If so, which sub-denomination? Shias? Ismailis? Khojas? Non-Muslim Asians? Which ones? Hindus? Parsees? Sikhs?

In the end, the Asian issue is best viewed as a metaphor for another aspect of Tanzanian politics; namely, the question of who benefits from economic reform and whether the benefits of the reform process are being shared by the vast majority of Tanzanians. This question would arise even if there were no Asian minority in Tanzania. But since Asians are highly visible in retail trade, especially in the major cities, the possibility that they have fared better in Tanzania's new economic environment does pose a potential problem. If economic reform does not go well, and Africans at lower levels of the socio-economic ladder do not begin to feel the benefits of reform, the desirability of the adjustment process may be called into question.

Foreign Investment in Tanzania

Another major, and rapidly growing, source of diversity in the Tanzanian business community comes from foreign investment in the economy. It is potentially very important economically and risky politically. Deeply rooted in the country's psyche is a mistrust, if not downright fear of foreign especially multinational business. In a speech on May Day 1995, former President Nyerere attacked the Mwinyi government for its corruption and for selling out to the IMF and the World Bank, especially via privatization. He noted, "Why do they want us not to have our own industry? They want us to keep selling raw cotton and coffee for the rest of our lives."[27] Some of these fears may be allayed by various schemes to broaden the equity base of privatized firms. The Parastatal Sector Reform Commission is working on several possibilities. But the overall trend is toward greater and greater involvement of international capital in the Tanzanian economy.

This aspect of Tanzania's increasing business diversity is being driven by the slow and uneven liberalization of the economic framework, especially privatization, and the prospects for profitable investment, particularly in minerals, agricultural sector processing, services, and tourism. In regard to the minerals sector, one foreign banker told us "Its like Australia before the boom." Foreign investment may bring much needed dynamism to the economy. There is risk, however, for external investors as they move into the same unevenly hospitable business climate faced by the Asian community, including some of the same political risks.

It is too early to get a clear picture of external investment in the economy, but the diversity is striking. The banking sector has opened up rapidly in the last two years with the arrival of a number of major international banks such as Citibank, Standard Chartered Bank Tanzania Ltd., Standard Bank of South Africa (T) Ltd., a Belgian-led bank, the Eurafrican Bank, and the Kenya Trust Bank. In all, seven new banks have been opened since 1991 and the applications of several others, including Greenland Bank of Uganda are pending.[28] With the unfortunate collapse of Meridien Bank and

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[27] Economist Intelligence Unit, Tanzania Country Report, No. 2, 1995. (London, 1995).

[28] The East African, November 20-26, 1995, p. 17.

its acquisition by Stanbic Bank, itself a result of Standard Chartered's withdrawal from South Africa during the apartheid period, the perception of foreign investors as quick rip off artists may have been reinforced; the Bank of Tanzania had to assume $120 million of the loss from the Meridien collapse.

Two major U.S. multinationals have moved into Tanzania via their South African subsidiaries -- Coca Cola and R. J. Reynolds, both as a result of privatization. South Korean investors have entered the textile sector in a joint venture, allegedly as a base for export into the U.S. market. British, Italian, Irish and other capital has also established a presence in the economy. In addition, quite diverse forms of external investment have entered via equity sharing and management contracts. In an incident that illustrates the diversity of foreign capital, an uproar was created when a Kuwaiti prince, using one of his London-based firms, received what was considered to be too good a deal on nine parastatals in return for $60 million to build a new national stadium.

Two sources of investment in particular may pose political problems in the future -- investment from South Africa and Kenya. The first plays on fears about the white business community in South Africa, even under a Mandela government which has instantly rendered such investment "legitimate." South African capital has long had a clear understanding of where profitable investment opportunities lie in the economy. De Beers, for example, has long awaited the right political conditions to invest in Tanzania's minerals sector, for example. In the July 1995 International Trade Fair in Dar es Salaam, 12 South African companies were represented. South African Breweries has already established a position in beer production; the Protea Hotel chain, in tourism; and South African Airways has established a presence in Tanzania's long under-served transportation sector with a joint-venture airline called Alliance. Since Alliance is principally a South African enterprise, the unions representing the employees of Air Tanzania made an effort, ultimately unsuccessful, to stop it.

During 1994, $52 million in South African imports entered Tanzania via legal recorded channels, accounting for four percent of total imports. Both these figures are likely to grow rapidly. In part, this is due to the fact that a number of major multinationals are now entering the Tanzanian economy via their South African subsidiaries. The new newspaper, The East African, has called this whose process "the South Africanization of the Tanzanian economy."[29]

[29] Quoted in Economist Intelligence Unit, Tanzania Country Report, No. 3, 1995 (London, 1995).

The second source of investment plays on fears about Kenyan dominance in the economy that remain quite vivid despite the many years that have elapsed since the breakup of the East African Community. Agricultural buying and processing firms are moving in such as the Dorman Company and Taylor Winch. Dorman has just opened a small and highly efficient coffee curing plant in Moshi, in direct competition with an aging parastatal plant, the Tanzania Coffee Curing Company (TCCCO). The personnel director of the latter told us that he and others attended the opening of the Dorman plant and felt as if "we were celebrating the demise of our jobs." The Dorman factory has already lured away key employees from the TCCCO and has also hired a number of its retirees.

The Asian factor weaves its way in and out of foreign investment in Tanzania. Much of Kenyan investment, for example, may be perceived to be Asian, such as Kenya Trust Bank. India has also become a major importer of Tanzanian cashews, operating principally through local Asian buyers. But Indian activity in the cashew sector has been problematic. In order to subsidize its own labor-intensive cashew-processing industry, India pays Tanzanian producers a 20 percent price differential over the price at which local processors can be internationally competitive. This has caused a number of local processing plants to close, thereby causing serious unemployment problems in the cashew industry.

In short, both South African and Kenyan groups may be seen as lurching ahead, while indigenous Tanzanian firms lag way behind. Hence, many of the points made in the previous section about the Asian business community also hold for foreign capital interested in Tanzania. Foreign investors may begin to encounter similar attitudes of suspicion and mistrust and, hence, confront the same difficulties in doing business in the country as the Asians have.

Formal Versus Informal Sector Enterprise

The political role of Tanzanian business is further limited by other important aspects of diversity. One has to do with the division between the formal and informal, or parallel, sectors. Liberalization of the economy has made this division even more salient than it was in the past. The exact distinction between formal and informal enterprise has been the subject of much academic discussion but precise definitions of the difference remain elusive. In general, formal enterprises can be said to be those that operate within the framework laid down by the government. They obtain licenses, maintain relatively systematic records of their transactions and pay (some) taxes. Formal sector enterprises may be large or small depending upon their economic activity but all operate under the penumbra of governmental supervision and oversight. Informal enterprises are those that operate outside this penumbra and generally do not deal with the government bureaucracy on matters such as licensing or the tax system; they are typically small scale and their record keeping is at best desultory. One working definition of informal sector enterprises is that they are businesses without fixed walls.

Formal and informal businesses have very different political agendas. Formal enterprises have much greater interest in improving the quality of government which, officially, they pay for through their taxes. They look to government, for example, for the improvement of physical infrastructure and they are more dependent upon government services including publicly provided "utilities" such as water, electricity and postal and telephone. Formal sector entrepreneurs also have a stake in improvement of the judicial system, especially as regards its capacity to protect property rights in productive assets, adjudicate business disputes and enforce contracts.

Informal sector enterprises tend to be more indifferent to these considerations. Informal entrepreneurs tend to be more concerned with the prospect of government as a potentially negative constraint on their activity, as when government bureaucracies seek to enforce licensing requirements, collect taxes, impose labor regulations or implement environmental and zoning restrictions. The politics of the informal sector are, therefore, strikingly different. One of our respondents suggested that the urban, informal sector petty traders provide much of the social energy and dynamism for the opposition parties and, indeed, informal sector entrepreneurs are those who pack opposition rallies. These same entrepreneurs, however, do not provide financial support for the opposition parties.

This is not at all surprising. Many of the street traders have moved into Tanzania's larger cities as a result of regional disparities in the Tanzanian economy, consider themselves outside the opportunity structure of the formal economy, and they have, in fact, been harassed by the government.

Finally, the size of the informal sector is a controversial issue. But what is clear is that, depending upon one's definition, it could easily rival or surpass the formal sector in scale. If all activities outside governmental regulations are included, such as cross-border smuggling of minerals and agricultural commodities, the drug trade and unreported earnings from labor migration, then the informal sector GDP is in all probability considerably greater than that of formal sector gross domestic product (GDP). This fact makes it extremely difficult to estimate Tanzania's actual GDP and its real GDP per capita. One economist, who has been a long time observer of the Tanzanian economy, estimates the real size of this economy as being at least twice as great as the official figures suggest. He places the real growth rate of the Tanzanian economy at over 6 percent per annum.

The Gender Gap

Another critical division within the Tanzanian business community has to do with gender. Business enterprise in Tanzania exhibits a glass ceiling that has imposed the most formidable barriers to upward mobility by women. Business enterprises of almost any scale, whether in trade, merchandising or manufacturing are owned and/or managed almost exclusively by male Tanzanians. Women entrepreneurs are to be found almost exclusively in small scale, informal sector enterprises, both manufacturing and retailing. Although some women own manufacturing firms employing up to thirty employees, this is considered very rare and female-owned firms of a dozen or less employees are more common. One respondent claimed that women's participation in business must be regarded almost entirely as a "survival strategy" in the difficult economic circumstances that have come about during economic reform. And within a context in which all Tanzanian-owned enterprises suffer from a credit constraint, female-owned firms appear to suffer from a worse one.

The glass ceiling extends to government employment itself. Tanzanian women are woefully under-represented in the cabinet and the National Assembly. Although the Tanzanian government has undertaken some programs to benefit female-owned businesses, and indeed has a Ministry that houses women's affairs, it turned out that its programs were almost all funded by donors. When donor funds that finance projects that benefit women stop, the government's programs stop as well. When women are employed by government, it is almost exclusively in relatively low-level secretarial or technical positions while upper level managerial and administrative positions are held predominantly by males. It is not surprising that two of the most professional, competent and content women we met work for a foreign multi-national bank which valued, encouraged, and protected their talents. Women also suggest that the government has done almost nothing to stop sexual harassment in the workplace.

Though there are growing signs of a feminist consciousness in Tanzania, the government seems to have remained largely oblivious to gender inequality in the society and to the possibility that state policy could play a constructive role in ameliorating it. Male and female Tanzanians thus have occasion to view the state through entirely different prisms. For Tanzanian males, the Tanzanian state has been a silent partner in the economic supremacy of their gender and there is little indication, if any, that the emergence of competitive party politics has altered that reality. For Tanzanian females, the Tanzanian state has been a tacit participant in an all-pervasive system of inequality and subordination. Males have little interest in policy reform as regards the gender issue; females, a fundamental one.

Business and Democracy in Tanzania

"No bourgeois, no democracy." -- Barrington Moore, Jr.

Barrington Moore's famous dictum that business entrepreneurs have historically proven to be the foremost champions of democratic institutions grew out of the case studies in his classic book.[30] Moore believed that where the business community was economically strong and independent of the state, it played an essential -- indeed determinative -- role in the growth of constitutional government, representative institutions and the emergence of an independent judiciary able to protect the political and property rights of individual citizens and groups. The principle of "no taxation without representation" was one that the American revolutionaries had borrowed from the British aristocracy's successful struggle for parliamentary government during the 17th and 18th centuries.

In Moore's view, a contemporary developing country would ideally resemble England during the formative stages of its transformation from an agrarian to an industrial society. Here, a portion of the landed aristocracy which had emerged as a nascent mercantile bourgeoisie championed democratic institutions in order to limit the monarchy's power to interfere with profits from the highly lucrative wool trade. Out of the collision between an absolute monarchy and rising bourgeoisie whose economic interests required a growing measure of participation and representation in the public policy process, there grew a powerful tradition of limited parliamentary government.

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[30] Barrington Moore, Jr., Social Origins of Democracy and Dictatorship: Lord and Peasant in the Making of the Modern World (Boston: Beacon Press, 1966).

Tanzania, however, has always had a closer resemblance to France than to England. In the French case, the bourgeoisie was not able to function as a champion of parliamentary government. Instead, the absolutist state was successful in imposing severe constraints on members of the aristocracy who aspired to become a nascent bourgeoisie. Because the bourgeoisie was small and dependent upon the throne for political protection and economic privilege, the commercialization of the countryside occurred in such a way as to reinforce the system of absolute authority. Constitutional democracy, when it did emerge, remained an unstable and highly intermittent form of government.[31]

As a result of the weakness of the commercial classes, France's economic development was stunted. It remained a primarily peasant-based, agricultural country until well into the nineteenth century. Its industrial revolution occurred only a century after that in Britain and even then was heavily dependent upon state intervention.

Until very recently, the Tanzanian business community has been in a political position very similar to that of early France. Business entrepreneurs did not have the autonomy to sustain a democratizing momentum. Indeed, Tanzanian business has been so dependent upon the state that it has not been among the leading forces of either the democratic or economic revolutions. Its internal divisions continue to make on-going political weakness a possibility.

But the potential for a democratic role by the business community may be increasing. Two vitally important changes have taken place in the last few years. The first is the demise of older business enterprises; that is, the SOE sector and those private conglomerates that so closely resembled it. The second is the deep fiscal crisis of the Tanzanian state, caused principally by falling revenue collections on import duties. By November 1995, some key ministries were being allocated only 10-15 percent of their original budget estimates.[32]

These changes have created an implicit negotiation that could produce an increased political role for the business

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[31] It is worth recalling that the First French Republic lasted only 7 years (1792-1799) and the Second French Republic only four (1848-1852). Thus, in the 63 years following the revolution of 1789, there were only 11 years of constitutional democratic government.

[32] Business Times (Dar es Salaam), November 17-23, 1995.

community and a strengthening of certain important political rights. The negotiation itself would be a straightforward one. The government urgently needs revenue to pay the salaries of civil servants, to maintain its army, and to operate essential services. The business community, especially the mercantile sector, is fully prepared to pay taxes of various kinds, including customs, but its interests lie in obtaining certain important guarantees in return. These include more secure rights in productive property, guarantees of minority protection, and a variety of legal safeguards including the elimination of repressive laws that could be used against the business community, as well as the elimination of corruption as a necessity of doing business.[33]

The taxes-for-reforms bargaining process could constitute the beginning of an endogenous democratic pattern. If it takes place, Tanzania will bear a closer resemblance to post-medieval England than to pre-revolutionary France. There are certain striking resemblances. Among them is the fact that the British merchant class that negotiated a democratic bargain with the monarchy was culturally different from the majority in British society. After the 11th century, the British aristocracy had been predominantly French, not Anglo-Saxon; and spoke a language that was principally Latino-French, not a vernacular Saxon language.

Perhaps most striking, though, is the fact that enduring democracies have rarely been built by movements inspired by democratic values in the abstract. They have come about as a result of the fact that rising economic interests had to institutionalize certain economic rights. In the course of doing so, they laid the foundation of democratic institutions.

[33] Among these would be the Deportation Ordinance (amended 1991), the Expulsion of Undersirables Ordinance and the Economic and Organized Control Act of 1984.

VI. The Political Economy of Business Diversity

This section places the issue of diversity in the business community into the larger macro political economy in which it is embedded. First, we will examine a triple-edged political business cycle. Next we will sketch out an entrepreneur's paradox that exists in transitional capitalist economies. The synergy between these two leads to a "hollowing out" of the reform effort. The hollowing out of reform is not the major and formal reversal of key elements of the reforms, but rather their slow emasculation via the political allocation of scarce resources, policy exemptions and changes, outright corruption, and the slow and uneven implementation of key reforms, all in ways that are inimical to sustaining and deepening the reform process. The rhetoric of reform remains, largely for the often gullible ears of the major external actors, but the result is a set of ritual dances of reform driven by the defense of core political interests, intensified by sensitivity to a perceived loss of sovereignty from what is often seen as a neocolonial process by the IMF, the World Bank, and the "donor" countries.

The extent of this problem can be illustrated by pointing to the decline of the overall macroeconomic situation, especially examples such as: the major revenue crisis that has led to the recent creation of the Tanzania Revenue Authority, especially the Investment Promotion Center tax exemption and customs stories; the slow pace of privatization; the incomplete liberalization of agricultural marketing; and, most vividly illuminating, the failing attempt to restructure the National Bank of Commerce (NBC).

The resulting emasculation of the reform effort further weakens the state capacity necessary to make the "orthodox paradox" -- the need to use a relatively strong state to manage the process of liberalizing a heavily statist economy -- work effectively. Having done this, we will sketch two "ideal type" scenarios for the next government and a continuum of possibilities in between them. Lastly, we will comment on the process of democratization and its impact on economic reform and diversity in the business community.

This analysis makes a distinction between the two Mwinyi governments. Mwinyi I is the period of quite impressive reform that emerged in Tanzania between 1985 and 1990; Mwinyi II, on the other hand, constitutes a period of stalled and emasculated reform between roughly 1990 and the elections of November 1995.

The Political Business Cycle

The Tanzanian reform process has been affected by a triple-edged political business cycle: [1] the normal weakening of reform that comes as a government approaches an election, [2] the political rot that emerges from a lame duck government whose ultimate commitment to reform is already weak, and [3] a type of reform fatigue that is particular to the Tanzanian case, having to do with the ideological limits of reform in the absence of a powerful new vision to undergird sustained reform efforts.

The first and second edges of the political business cycle result in a seriously deteriorating macroeconomic situation, accompanied and, in large part, caused by a spreading cancer of corruption driven by crony forms of capitalism, and the third edge is a reaction to the first two and sets limits to reform that are subtle but difficult to overcome.

The late 1960s and the decade of the 1970s were characterized by a state that was both "hard" and "soft." Under Nyerere Tanzania had "hard" or decisive, committed, and legitimate leadership with a powerful vision of change and the capacity to make major policy decisions and begin to implement them; at the same time the state apparatus was "soft" in that its administrative capabilities were quite weak with a huge gap between intent and implementation. By the early 1980s, the eventual result of the attempt to implement Nyerere's vision of African socialism was a severe and multi-faceted economic crisis.

The major economic reforms that came under the first Mwinyi government resulted from the synergy between the severity of the economic crisis, accumulated external pressure, and a few brave voices of reform inside the country, largely in technocratic pockets of the government and from economists at the University of Dar es Salaam. It was a reactive response to crisis, not one of a strongly committed leadership that attempted to articulate a new vision of change to replace the African socialist one. The state apparatus remained soft, but it was not yet massively corrupt or seriously demoralized--itself an unusual legacy for an African government in the early 1980s and largely attributable to Nyerere's long rule and influence.

During the roughly two and a half years that the late Kighoma Ali Malima was finance minister from mid-1992 until his forced removal in late 1994, the situation deteriorated as at amazing rate. This rot or "hollowing out" process was propelled by the three edges of a political business cycle and the synergies between them.

The first is the electoral one. Once elections loomed on the horizon, the political logics of protecting the CCM's ability to stay in power encouraged the political allocation of resources, renting-seeking opportunities, policy changes, and lubrication and protection of key patron-client relationships that enhance the party's ability to survive in a new multi-party situation. These processes were intensified by the jockeying for power and position within the party, especially regarding who would be parliamentary and presidential candidates. Resources were needed for these efforts as well. These endeavors weakened the overall macroeconomic situation, particularly in terms of the money supply, budget deficits, and the collection of state as opposed to personal revenue.

The second edge of the political business cycle has to do with the lame duck status of the Mwinyi government itself. Once it became clear that Mwinyi was not going to be able to serve for another term, his political agenda and the agendas of the people around him became reduced to a single ambition -- getting as much as possible before the general election would usher in a new regime. This involved pervasive levels of corruption in high and low places and created a climate of corruption and cynicism in large sections of the civil service, reinforced by the economic pain of the economic reforms, the erosion of salaries, and declining morale. All of this further weakened the revenue base and the overall macroeconomic situation. It also entailed the stalling or harassment of efforts to reform key sites of revenue leakage in the system, at the NBC and customs in particular.

The third edge of the political business cycle is an ideological one having to do with unease about the nature of the reforms and the abandonment of the socialist vision and the material interests it protected, especially in the state itself. In a process similar to that which took place in Senegal, the old party barons who clung to Nyerere's socialist vision -- one so long supported by donor largesse. They had hunkered down during the reform onslaught of Mwinyi I but began in Mwinyi II to chip away at the ideational environment of the reforms by stressing the negative costs of the new form of political economy compared not to the slowly fading memories of the terrible years of the early 1980s but rather to the ideal vision that Nyerere had attempted to implement and still hankered after.

For over twenty years, Nyerere worked hard to implant this vision, its antipathy for private wealth and entrepreneurial activity, especially foreign and "stranger" types, and the belief that the state was the proper vehicle for planning and achieving humane and equitable development.

It stressed that capitalism and markets brought exploitation, inequality, and corruption. Nyerere and many of the older party barons simply did not believe that the new economic reforms would work in the longer run. This wistful hankering after the old vision was made possible by the belief that its problems were "just" a matter of poor implementation, adverse external conditions, and the connivance of external actors.

What is striking about this wistful mind set is its ambivalence. Many people we talked to agreed that economic changes had to be made yet at the same time they were unwilling to admit that Nyerere's vision was wrong. The continued reverence for the man is strong and arresting and enhances his role in attacking the market reforms and the corruption they allegedly produce.

This is striking testament to the normative power of Nyerere's socialist vision as reinforced by the education of a generation of key people in its ideals. This education was also done in Swahili which diminished the contact of large numbers of people with other realities in the outside word, especially given the government's control over the media.

Reaching this point in the ideological political business cycle was made possible by the fact that no counter capitalist vision of development was provided by the Mwinyi government. Doing so is in fact very difficult, but especially in Tanzania given its particular history and the fact that Mwinyi really did not want to provide one, much less know how to. The economic reforms were reactive not proactive. This worsened once it became clear that the expectations about what the reforms would achieve were not going to be achieved in reality. This was intensified by donor country projections about what could and would be achieved within a specified time frame, what has been called elsewhere the "fault of analytic hurry" inherent in neoclassical approaches to economic reform. They quite simply oversold the program.

Finally, this ideological political business cycle was intensified by Nyerere's decision to severely attack the government of his own party for its corruption and abandonment of old ideals in the face of external pressure. In turn, this fed sensitivities about the loss of sovereignty and control over the country's destiny which resonate through the political elite and all reaches of the state apparatus. Nyerere's activities culminated in his very direct role in the selection of the CCM's presidential candidate and his eventual decision to campaign for that candidate and the party's parliamentary candidates while attacking corruption allegedly brought on by capitalist market reforms and the efforts to dismantle the parastatal sector.

These efforts have been reflected in popular attitudes towards corruption and the role of Asian and other economic minorities and multinational corporations by references to "technical know-who" instead of technical know-how. All of this helps to hollow out the reforms and make it more difficult to get them back on track. Widespread popular cynicism, especially in urban areas, has been reinforced by a much freer press, especially the exuberant muckraking Swahili press.

The Entrepreneur's Paradox

It is difficult for business to exist in such a climate, and business people face a powerful paradox. They need and want predictability and the elimination (or at least weakening) of political control over the economy that economic liberalization would bring; yet they know that in order to survive in a climate that is not yet fully liberalized and in which economic restructuring is still at a very embryonic stage they must play the political games of connections and corruption that are necessary for their survival.

This was a problem for entrepreneurs in the rise of capitalism and rule-based economies in Western Europe in the eighteenth and nineteenth centuries (and is obviously never fully eliminated anywhere), just as it is a problem in the contemporary era in transitional economies whether it be in East Asia, Latin America or Central Europe. The transition from crony to rule-based capitalism has always been a difficult one; it is particularly difficult in Tanzania. This does and will continue to hold true for emerging indigenous entrepreneurs in both the formal and informal sectors.

This paradox was driven home vividly by a story recounted to us by Tanzanian and Asian business partners who drew up a set of policy recommendations for improving the business climate which they wanted to submit to the Ministry of Finance. The official they approached would not even take the documents from the businessmen until offered a monetary inducement to do so; "what is in it for me?" he asked. A key legacy of the failed socialist experiment is that the entrepreneurial class is very small (the World Bank's "missing middle") and what existed was given little chance to organize, compounded by the fact that the Asian business community was so insular given its precarious history. This fact will also slow the development of well institutionalized opposition parties and the ability of parliament to effectively supervise government policy and performance

This is a particular problem for Tanzania because most of its private sector is Asian and Arab or populated by multinational corporations, but particularly the Asians because they have learned best how to exist in this environment, and they understood the reforms and how best to take advantage of them. This accounts for what might at first blush seem odd -- the strong financial support by many Asians for the CCM in the elections.

Many of the Asians in Tanzania are members of an international economic diaspora which has sites of trade and production around the world. Corruption for economic production, profit, and survival is not a culturally inherent phenomenon as many Tanzanians seem to believe but usually the result of a particular business environment and the habits that it breeds over time. This is especially true in a climate where confiscation and harassment of one sort or another has been a real factor in each of the last three decades in Tanzania. The fact that it is not an inherent characteristic is demonstrated by the fact that Asians with diaspora business sites operate quite nicely by taking legal advantage of economic niches in developed industrial economies. Under those conditions they thrive as well.

This point will hold for multinational corporations that are now moving into the Tanzanian economy as a result of liberalization and privatization. They too will have to find ways to operate effectively in this highly political and deeply corrupted business climate. Multinational corporations may face an additional source of difficulty in that they will find it hard to defend at home the sorts of business practices required to produce and make a profit here.

Hollowing Out of the Reforms

The key point here is that there is a synergy between the three edges of the political business cycle and the entrepreneur's paradox. The result is the increasing corruption and macroeconomic mismanagement that has characterized Mwinyi II and the consequent hollowing out of much of the reform process, although not yet the formal reversal of any part of it. Emasculation of the reform process is the consequence nonetheless. In addition, it is entirely possible that accumulated resentment may once again pose difficulties for an increasingly diverse business community with the reemergence of a vigorous indigenization debate and its unpredictable outcome.

One of the most vividly illustrative examples of emasculated reform and the ritual dances of the reform process is the attempt to restructure the NBC The illiquidity of the

NBC is both a major cause and example of the illiquidity in the economy which is doing so much to hamper reforms and slow growth beyond what it might be otherwise. Resistance to its reform has been powerful because it is at the core of the crony capitalism and statism that have taken hold of Tanzania--the political allocation of scarce resources and the absence of any underlying will or capacity to assess risk or collect funds due it. In short, the NBC became a crony political bank that hovers over the economy like a dark, dangerous cloud; it is essentially bankrupt.

The NBC is the bloated amalgamation of nine banks, with far more employees, branches, and subsidiaries than it needs. An early example of its pervasive mismanagement is that none of the branches were closed upon amalgamation, hence the odd sight of small urban centers having several NBC branches, often close to each other. The NBC has 80 percent of the country's deposits and accounts for about 75 percent of the loans, of which 85 percent are non-performing in one fashion or another. It has been the major avenue of funneling state revenue to prop up the statist economy and the crony capitalism and outright fraud that emerged under the economic reforms.

As one vivid example of the problems on the statist side, the Tanzania Electricity Supply Company is one of the bank's largest customers, and it makes very little effort to collect the revenue owed it, seeking additional NBC loans instead. The NBC also became the center of many creative embezzlement and diversion schemes. Political lending is a way of life now. In this sense, the NBC has become the most vivid example of the worst of both crony statism and crony capitalism

As part of the Tanzania's reform process, the World Bank set out to stabilize and restructure this crucial behemoth as part of the 1991 financial sector reform effort, especially under the Financial Institutions Development Program. Many studies were conducted and recommendations made to the government--all of which were ignored. Finally, the World Bank insisted on placing a three-person expatriate team in the bank to carry out a vigorous restructuring effort. As part of the ritual dances of reform the Mwinyi government agreed to a major restructuring package in August 1995 and to the presence of the expatriate team. Some loans were written off, others were refinanced using special bonds, while the government injected new cash.

The expatriate team has met systematic resistance, despite the valiant efforts of a number of Tanzanian bank officials, and come under very heavy political pressure. The legal manipulation of the law has been used to prevent transforming the bank into a rule-bound and productive financial institution. A pre-existing labor agreement is being used to prevent major restructuring. Within the last week, the expatriate team has been attacked by the army for wanting to close a branch it uses and the head of the team has been personally attacked in the press under the guise of the misuse of telephone privileges. The entire restructuring effort is now in jeopardy despite government rhetoric that it is committed to the reforms.

Two Scenarios

The reform of the Tanzanian economy is at a crucial turning point after five years of reform followed by five years of rot and hollowing out. In our interviewing, two "ideal type" scenarios emerged as to what the new Mkapa government might do. What happens over the next several years will certainly fall somewhere between these two end points of a reform/non-reform continuum. We will briefly sketch the two scenarios as a way of highlighting some of the indicators that one might want to watch for:

[1] **Reinvigorated Reform:** This scenario hinges on an assessment of Mkapa and the people around him. Driven by the terrible realities of the current economic crisis, Mkapa is seen as an independent leader, one not tied to Nyerere, who has the strength and will to relaunch the reform effort by taking some very tough decisions early on and making sure that they are carefully implemented. It is believed that he will surround himself with younger more talented people, ones less bound to old ways and ideas--both socialist and crony capitalist--and that he will be able to stop the corruption and work well with the IMF, the World Bank, and the donor countries. The latter will have to provide sufficient <u>and</u> timely support as well as initial understanding of the very difficult situation he will face. Equally important, it is believed that he will be able to provide a new vision of where Tanzania is going that encourages voluntary compliance with the difficult reforms and restores some of the morale and rectitude to the civil service. The presence of opposition in the National Assembly is seen as providing Mkapa with a watch dog on corruption and some policy input as well. Such an outcome could have a quite propitious impact on an increasingly diverse and vigorous business community.

[2] **Stalled Reform:** This scenario paints a very different picture of the next government. It sees Mkapa as being honest and well meaning, but too tied to Nyerere and other barons of the party to be decisive in choosing a capable cabinet, taking tough decisions quickly, working closely with

the Fund, Bank and donors, much less being able to provide strong, visible leadership and a vision of some form of a new capitalist future. It sees the rot and hollowing out of Mwinyi II as too systematic and too far gone to be controlled by a well meaning but weak government faced with new opposition and an increasing fractious, if victorious, CCM, one badly tarnished by its manipulation of the electoral process. The new opposition in the National Assembly is not likely to be well organized enough to be more than, as one of our respondents put, "a few buzzing mosquitos" seeking out corruption, much less strongly committed to tough economic reforms and able to keep the Mkapa government's feet to the fire. Early signs of continued hollowing out are seen to reinforce the very real reform fatigue that also seems to exist on the side of the donors, leading to a continuation of the withholding of major support, no new IMF agreement, hence no Paris or London Club reschedulings, and diminished World Bank support. Such an outcome could prove to be dangerous for the increasingly diverse business community and revive old tensions and passions.

The actual outcome will obviously be some mix of these two ideal type scenarios, but at the same, time tend to lean towards one or the other. There is nothing to make either one of these scenarios inevitable; politics after all often provides amazing surprises. Who would have believed that the radical populist Jerry Rawlings in Ghana would be the father of the longest running and most successful economic reform effort in Africa or that Yoweri Museveni would be able to put Humpty Dumpty back together again in Uganda. The latter was the person most frequently referred to by the Tanzanians we interviewed as the type of vigorous leadership that the country needs at this point. Museveni has not, however, moved toward full multiparty democracy nor have the donors been overly aggressive in pushing him in that direction, just as they were quite gentle with Rawlings before him. This brings us to the issue of democratization and its relationship to economic reform.

Democracy and Economic Reform in Tanzania

As his government has come to a delayed and tarnished end, President Mwinyi, the architect of Tanzania's impressive early economic reforms <u>and</u> the god father of their serious emasculation, made some interesting comments on this issue. According to <u>The Guardian</u>, he "criticized foreign efforts to replace socialist-oriented regimes in developing countries with Western democracy after the fall of communism in the former [S]oviet [U]nion... Such efforts were strongly exerted to install leadership that would smoothly serve foreign interests, explaining that developing countries have bowed to such efforts because of poverty." Mwinyi said, "This is injustice and helplessness. It is painful but we have nothing to do." He made the point that democracy in developing countries should be allowed to take an evolutionary course as has been the case with Western nations.[34] One could take these statements as an indication that the ideological business cycles is indeed coming back around again.

There is now quite an extensive academic literature on the relationship between economic and political liberalization in Africa and elsewhere in the "developing" world. The major industrial democracies have been pushing a new post-Cold War vision which argues for simultaneous efforts at economic reform and democratization on the grounds that the two will reinforce each other. This remains a hotly contested assertion, however.

What, if anything, can the recent elections suggest to us about this relationship in Tanzania? They indicate that for the moment at least the relationship between the two is ambiguous and tenuous at best. The Mwinyi economic reforms were not in themselves major policy issues in the elections. The government did not run on the basis of its reforms nor did the opposition make them a major issue, aside from some attacks on corruption and privatization. In fact, discussion of policy issues was striking by its absence from the campaigns.

In this sense, neither of two contending major views of the relationship has been validated by this election. The first is that economic winners will organize to defend their new found well being, while losers will storm the democratic barricades to tear down oppressive externally-imposed economic reforms. Both sides merely made vague populist appeals about improving the well being of the people. Clearly it was difficult for one major set of winners from the reforms--the Asian community at large--to actively organize to support the reforms. It is difficult and probably dangerous for them to do so in a major and public way. As indicated above, however, they did apparently provide major resources to CCM candidates, willingly or not. It is impossible to tell which Mwinyi government such contributions were meant to protect, possibly, given their entrepreneurs paradox, both Mwinyis! The opposition parties are certainly not yet well organized or coherent; party institutionalization is a long term process. Nyerere correctly but self-servingly called them "immature."

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[34] "Mwinyi criticizes replacement of socialism with western democracies," The Guardian (Dar es Salaam), no. 306, November 18, 1995, p. 1.

Will the opposition members in parliament work to strengthen or weaken the economic reform process? They will probably do neither, although they may become a force for more transparency and accountability by focusing on corruption, as they did in the campaigns. This assumes, of course, that they do not allow themselves to be bought off or otherwise silenced. Given its performance during the elections, it is indeed possible that the new government will use legal maneuvers to keep the opposition as quiescent as possible.

The existing literature does, however, caution us about reading too much into "founding elections;" second elections have been much more revealing about the relationship between economic and political liberalization. The next election in Zambia, for example, is very likely to be much more of a referendum on economic reform that the one which removed Kenneth Kaunda from power.

The Western vision does have a certain pollyannish quality to it, however. One long time astute observer of Tanzania has made an assessment that is an appropriate ending for this report:

> The vision of economies operating with undistorted commodity markets and freely flowing capital, with just social policies which deliver social services in an equitable manner, officiated over by a multi-party political system, innocent of corruption and pure of purpose is an attractive Utopia, but it is not particularly realistic. The lack of realism shows itself in the oscillations of donor concerns--the emphasis on the market followed by shock at the inequalities the market generates, the adulation of private business and the embarrassment at the processes whereby classes emerge at the early stages of capitalism and endorsement of multi-party politics and surprise that party politics is about the sectional competition for spoils.[35]

If it is nothing else, the new Western vision is certainly ahistorical; hence, donors must be careful about how it is applied.

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[35] Brian Van Arkadie, "Economic Strategy and Structural Adjustment in Tanzania," paper for a World Bank conference on "Governance and Successful Adjustment," Private Sector Development Department, World Bank, November 9-11, 1994.

Appendix I. Implications for Donors

There follows a specific list of recommendations. These recommendations flow from and are based upon the analysis in the report.

FIRST, stay the course. USAID's leverage and donor influence more generally, have been the critical factors in bringing Tanzania to this point. One critical observation, made at several points in this report, is that Tanzania's economic and political reform processes are not yet endogenously driven. Unlike Ghana, for example, the Government of Tanzania has not been active in designing or initiating reforms. Its political leaders do not appear to be "invested" in the form agenda but, rather, appear to regard reform as something that must be done to receive foreign assistance. Without continuing external (donor) pressure, the reform process might stall or even suffer reversals.

Effective donor surveillance is, therefore, imperative if any of the following recommendations are to be effective. It would be preferable if the monitoring effort could be coordinated with other donors. Enhanced donor surveillance would have the added advantage of strengthening the hand of reform-minded members of the Tanzanian government in that it would give them something to point to in their efforts to improve the policy environment.

Donors should be prepared for unevenness in the reform process. Progress toward multi-party democracy and progress in economic liberalization do not move forward smoothly. They can occur in fits and starts; there may be periods of stagnation in the reform effort; and sometimes, a country may appear to be moving backward rather than forward. Indeed, the concluding section of this report, "The Political Economy of Tanzanian Business", seeks to show that some backsliding is to be anticipated when national elections are approaching.

The most important consideration at this juncture in Tanzania's politico-economic history is to be a player. While USAID financing could well be increased or decreased in response to favorable or unfavorable performance in the reform efforts, it is of utmost importance that donor pressure for reform be maintained.

SECOND, find ways to boost the revenue collection process by finding strategic points of convergence between the interests of government and those of the business community and find ways to facilitate an interaction over those convergences. This report identifies one broad area of convergence. The

Tanzanian government is desperately starved for revenue. It urgently needs the funds to pay its army, police, and civil servants, to operate its schools and hospitals, and to upgrade its bureaucracy and court system. Members of the business community are perfectly prepared to pay taxes. In fact, many members of the business community claimed to us that they would prefer to pay revenue rather than bribes. But they would like a revenue system that is fair, reasonable, uniformly enforced and that does not discriminate between sectors. (Manufacturers do not want a taxation system that places them at a disadvantage in comparison to importers and vice versa.) More importantly, businesses want a government that is more representative (of their interests), limited (in its ability to behave arbitrarily against individuals or their property), accountable (to those whose industries, plantations, hotels, and mines generate employment) and predictable.

There presently exists an implicit negotiation between the government and the business sector. The question is how to facilitate a real negotiation. Informal lobbying? A business forum? Conferences and retreats? Tri-partite panels consisting of business, government and donor agencies? Perhaps some training efforts that will educate segments of the business community about American-style strategies such as the formation of political lobbies and political action committees.

The issue of modality is one that needs further exploration. But the substantive content of the negotiation, taxes for reforms, is in place. Thus, there is a real potential for the reform process in Tanzania to be driven forward by a negotiation between the government and the business community.

It is imperative that the government not be able to evade its reform responsibilities by substituting donor financial support for internally generated revenues. To see that this evasion does not occur, USAID (and other donors) should, among other things, condition financial assistance upon improved revenue collections. Donor financial assistance, in other words, should become the functional equivalent of the "matching funds" requirement imposed by many philanthropic organizations. For each additional percent of improvement in the ratio of revenues owed to revenues collected, donor assistance could be increased by a certain fractional amount.

This approach would have two additional benefits. First, it would put the donor community squarely behind the anti-corruption efforts of the present government. Since the government's revenue difficulties are rooted squarely in the problem of corruption, improvements in revenue collections would be concrete evidence that the new government's stated intention to reduce corruption was bearing fruit.

Second, it offers an improved prospect of maintaining united ranks within the donor community. It is readily apparent that some donors are reluctant to set strict conditions their financial assistance to Tanzania. Part of this reluctance could have to do with their unwillingness to place financial assistance on an all or nothing basis. Aid that is carefully calibrated to specific improvements might by-pass this difficulty.

THIRD, find ways to support and strengthen the business community in a neutral manner. If this report has one single message, it is that the business community of Tanzania is the key to the country's economic and political future. One of the many paradoxes in Tanzania has to do with the wide gap between the way in which many Tanzanians view business and the way in which the business community views itself. Numerous Tanzanians believe that the business sector "controls" the government, through bribery and personal connections. Most business people feel that have no influence at all and that they must take the political system as a given. The latter is closer to the truth.

The business sector, though it is daily becoming more dynamic and robust, can still benefit from external interventions. One is already in place. Tanzanian business entrepreneurs know that the various AID missions, USAID especially, exercise a monitoring function over the behavior of the Tanzanian government. This monitoring, plus AID conditionality, is vitally important in providing business a protective shield. Without the presence of the aid community, Tanzanian business would feel even less secure and more exposed to the possibility of arbitrary governmental action.

FOURTH, find **administrative** ways to strengthen Tanzania's revenue collecting system. Tanzania's revenue difficulties are partly the result of systemic difficulties such as corruption. For the time being, these problems may be difficult to change. But the revenue problem is also the result of a revenue-collecting apparatus that dates back to colonial times. To walk into a government office where revenues are actually collected is not to be surprised that so little revenue is collected, but to be surprised that any revenue is collected at all! Files are often strewn about and lying on the floor or in piles on desks; there is almost no computerization; records keeping is by ancient ledgers; working space is congested; lines are long and slow moving.

Modernizing a bureaucracy is intrinsically a piecemeal task. But given the severity of Tanzania's revenue difficulties, this process might well begin with the Tanzania Revenue Authority and other points in the system where taxes are collected.

Potentially important sources of tax revenue seem to us to be either un-tapped or inadequately tapped. One is property taxes. The dangers of over-taxation of fixed assets aside, for the moment, creating an administrative system that will collect property taxes in a timely, efficient and objective manner is daunting enterprise. In Tanzania that enterprise would begin with improvement of the system of land registry. One reason, among many, why Tanzania does such a poor job of collecting taxes is that the government has virtually no way to create, track and keep records of the taxable assets in the country, land among them.

In most counties in the United States, the functions of land registration and property tax collection are normally combined in a single agency for obvious reasons. It is administratively easier for the agency responsible for recording land (and real property) transactions to be responsible for sending out the bills and collecting the taxes on those transactions. Otherwise the possibilities of an information dis-connect are too great.

In Tanzania, there is a vast area of improvement with respect to the land registries. Everything is needed. Computerization including inter-connectedness; system methodology; staff training; better methods of linking title recording and tax billing (and collection).

<u>FIFTH, find ways to strengthen the autonomy of basic financial sector institutions</u>. Strengthening the autonomy of the financial sector is one of the most powerful signals that a government is serious about creating an economic environment favorable to business. The first concrete step in this direction is the political independence of the central bank, Bank of Tanzania. The appointment of the Director of Bank of Tanzania must, insofar as possible, be immunized from political considerations.

At a minimum, the appointment of the Director of the Bank of Tanzania cannot be a purely presidential appointment and the term of office of the director must be different than the country's electoral cycle. The appointment could be by a national board with representatives of government (including opposition leaders), business, labor, and agriculture. Alternately, the appointment could be by presidential nomination from a list submitted by the national board, the president's nominee to be subject to parliamentary approval.

This report has also called attention to the extreme difficulty of reforming the government-owned commercial bank, the National Bank of Commerce. The very idea of a government-owned commercial bank is thus open to the most serious question. State ownership of banking institutions might have a certain logic in a socialist economy in which the most important industrial enterprises are owned by the state. Its justification in a market-based economic system where private banking is already well established is another thing altogether.

Privatization of the National Bank of Commerce deserves the utmost consideration. If current reform efforts fail, privatization may be both politically and economically essential.

Finding ways to enhance the political autonomy of financial sector institutions would strengthen the political influence of reform-minded members of the Tanzanian government. In government's such as Tanzania's, where reform is politically difficult, the most effective political strategy for reformers is to have the government's hands tied. This is the reform equivalent of "stop me before I kill again."

<u>SIXTH, find ways to strengthen Tanzania's (commercial) law system and its judicial institutions to enforce it</u>. Tanzanian business operates in a difficult, high risk environment. A significant part of that risk is that the inadequacy of the legal system. Basic business laws including contracts, investor protections and guarantees, shareholder rights and privileges, fiduciary obligations, etc... should be reviewed and up-dated.

Once draft legislation has been prepared, the statutes essential for a country involved in global trade and seeking to attract international capital will need to be passed by the Tanzanian parliament. That is a political matter that will rest on the reformist will of the incoming administration. But it begins as a technical process of carefully reviewing existing legislation and preparing appropriate revisions.

This process should be done in cooperation with the business community, both national and multi-national. Investors are the best detectives as to which legislation might well be repealed or modified, and in pointing to specific areas where new legislation would be helpful.

Appendix II. A Note on Method

The core methodology of this study was to create a profile of the business community by using the answers to broad and fairly open-ended questions. The researchers conducted numerous interviews with members of the Tanzanian business community. (See Appendix II. List of Interviews). Typically, each interview began with a fairly broad statement of the purpose of the research -- "USAID has asked us to create a profile of the Tanzanian business community." -- and then moved to an open question: "How would you describe the nature of the Tanzanian business community? What are its principal features?" "How is this community changing and what are its principal problems?"

Out of the answers to these questions, we gradually constructed a portrait of the principal lines of diversity in Tanzanian business. Because of the nature of the study, we had initially suspected that the racial issue (Asian vs. Indigenous Tanzanian business) might loom large in respondents' comments. For one or two respondents, it did. But for the vast majority, it did not. We had also thought that the division between manufacturing and trading would assume great significance. And for many respondents, it did. But others persuaded us that the real key to understanding Tanzanian business was to capture the difference between the old and the new, between businesses that survived in the past through their close political connections to the old regime and businesses that are able to survive in a competitive, globally open trading environment.

Out of all our interviews, we therefore developed a profile of Tanzanian business that consisted of a series of economically and politically consequential divisions. These consisted of the following. (1) Old vs. New Business Enterprises; (2) Trading vs. Manufacturing; (3) Asian vs. Indigenous Enterprise; (4) Multinational vs. National Enterprise; and (5) Formal vs. Informal Sector Enterprise.

A critically important issue, one that remains to be explored much more fully, is that of the gender gap in Tanzanian business. As the study notes, almost any productive business of any scale, whether in the formal or informal sector, is male-owned and managed. Males are also numerically dominant in trading enterprises of all scales, both formal and informal. Although women do own some relatively large firms employing up to thirty persons, these are in fact very rare, indeed exceptional. The vast majority of female-owned businesses are small in scale, employing few workers, and appear to be principally in the nature of survival activities in rapidly changing economic milieu. This was not an aspect of our study to which we could devote nearly enough attention. It deserves more.

Appendix III: List of Interviews

Shabir Abji, Director, New Africa Hotel

Edson Ambindwile, Chief Liquorer and Auctioneer, Tanzania Coffee Board

Brian van Arkadie, Economist, Dar es Salaam

Joel Barkan, Election Observer, Dar es Salaam

Paul Bundick, The Business Centre

Simon Caink, Executive Director, Standard & Chartered Bank

G. M. Chamungwana, Chairman, First Adili Bank

Clive S. Gray, Institute Fellow, Harvard Institute for International Development

Abdul Haji, Chairman, CMC Land Rover (T), Ltd.

Moiez Halari, Mabibo Enterprises

Safdar Hameer, Owner, Janmohamed's, Dar es Salaam

Mr. Sangito Kaaya, Coffee Farmer, Mderu District

Hatim A. Karimjee, Managing Director, Karimjee Jivanjee Ltd.

Al Nur Kassam, Vice Chancellor, Sokoine University

Mr. Yalinde A. Katunzi, Assistant Commisioner, Customs Department

Benedetta Killian, Tanzanian graduate student, UCLA

Andrew Kiondo, Department of Political Science, University of Dar es Salaam

Zenoul Ladha, Director General, Ladha Industries (T), Ltd.

Anna M. Lyabandi, Manager of Global Products, Standard & Chartered Bank

Africanus T. Maenda, Executive Director, The Association of Tanzania Employers

Mr. Mathew Mangi, Director of Operations, Tanganyika Farmers' Association

Henry C. Mbano, Personnel & Administrative Manager, The Tanganyika Coffee Curing Co. Ltd.

Rashidi Mbuguni, Business Care Services

J. Craig McAllister, Chief Operating Officer, National Bank of Commerce

Dr. Ruth Meena, Department of Political Science, University of Dar es Salaam

Charles Mishetto, Export Manager, The Tanganyika Coffee Curing Co.

Harry Mrema, USAID, Dar es Salaam

Dr. Rogate Mshana, Democracy and Human Rights Unit, Evangelical Lutheran Church of Tanzania

Mr. E. R. K. Mshiu, Managing Director, Tanganyika Farmers' Association

Mrs. Edwin Mtei, Coffee Farmer, Arusha

Mr. Alois C. Mtowa, Chief Consultant, Parastatal Sector Reform Commission

Rwekaza Mukandala, Chair, Department of Political Science, University of Dar es Salaam

David Mwaibula, President, Tanzania Chamber of Commerce, Industry and Agriculture

Job V. Mwambuma, Organization of Tanzania Trade Unions

Raphael Mwamukomdo, Mabibo Enterprises

Shamsa Mwangunga, Senior Consultant, Business Care Services

Lucas Moshi, Coffee Farmer, Kombo

Bruno J. Mpangala, Secretary General, Organization of Tanzania Trade Unions

Shamsa S. Mwangunga, Senior Consultant, Business Care Services

F. S. ole Ndukai, Acting Chief Engineer, The Tanganyika Coffee Curing Co. Ltd.

John Ngare, Coffee Farmer, Kombo

Daniel Ngowi, Economic Officer, USAID, Dar es Salaam

Sylvanus Nnunduma, Assistant to Managing Director, Tanganyika Farmers' Association

Jeetu C. Patel, Chairman, Noble Azania Investments Limited

Nina Pendaeli, Legal Officer, Standard & Chartered Bank

Stefano Ponte, Research Student, University of East Anglia

Aliraza Rawji, Computer Sales & Services

Kitwana Saidi, Taxi Driver, Dar es Salaam

Edward K. Sanda, Managing Director, Tanzania Coffee Board

Robert Satchwell, General Manager, Equity Investment Management Limited

Hatibu K. Senkoro, General Manager, Tanzania Development Finance Company Limited

Edmund Soka, Kombo Primary Cooperative Society

Jim Stone, Food Aid officer, USAID

Haji R. Suweid, Public Relations Officer, Tanganyika Farmers' Association

Col. Anatoli A. Tarimo, Regional Commissioner, Lindi

Thomas Tengg, Project Officer, USAID

Tony Thompson, Operations Officer, World Bank

Professor Samuel Wangwe, Executive Officer, Economic and Social Research Foundation

Dr. Edie B. Wilson, Managing Director, EB Wilson Management Consultants