3

Uncertain Development Trajectories in Bangladesh and Tanzania

I BANGLADESH

A Is the 'Bangladesh Paradox' Sustainable?

The Bangladesh paradox consists of the apparent contradiction between the superior growth performance of the country over the last two or three decades and the dismal state of its institutions, at least as gauged by most international governance indicators. The IDP case study on Bangladesh attempts to explain this paradox and address the issue of its sustainability.

What follows is a short summary of this case study conducted according to the methodology described in Chapter 2. It starts with a brief presentation of the geographical, demographic, and historical context of development in Bangladesh, before focusing on its economic achievements but also on its challenges going forward. Institutional issues are then taken up, before presenting a full institutional diagnostic of Bangladesh's development perspectives and then concluding.

B The Geophysical and Population Context

Occupying the delta plains of major South Asian rivers – the Ganges, the Brahmaputra, and the Meghna – Bangladesh covers a 150,000-square-kilometre tract of land surrounded by India, except for a short border with Myanmar in its southeast. With 165 million inhabitants, it is the most densely populated country in the word (excluding city-states like Hong Kong and Monaco). It has a tropical monsoon climate with heavy seasonal rainfall, hot temperatures, and high humidity. The combination of its climate, its dense river network, the low elevation of most of its land above sea level, and its geographical position at the very back of the Bay of Bengal make it prone to frequent natural

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

disasters, including floods, cyclones, and tidal surges. For the same reason, it is one of the countries that is most threatened by climate change.

These natural conditions affect the country's development potential and some of its development features. The scarcity of land is especially important since it affects agricultural production and constrains the extension of cities and non-agricultural activity. Over time, arable land as a proportion of total land has shrunk, the average farm size has fallen – it is today around 0.6 hectares – and landlessness has increased in rural areas. Meanwhile, urbanisation has progressed rapidly – at an annual rate of almost 1 per cent of the population – so that the competition between agriculture and other activities for land is fierce.

Land scarcity would be even more worrisome if the rate of population growth had not fallen in a rather spectacular way over time. The fertility rate was above six children per woman at the time of independence in 1971. It is now close to two. Consequently, the annual population growth rate has declined from 3 per cent to less than 1 per cent. Ethnically, the population is extremely homogeneous: 98 per cent of the population belong to the Bengali ethnic-linguistic group, while the remainder comprise several tribal groups in the hilly parts of the country. The same homogeneity is observed with regard to religion, with more than 90 per cent Muslims and 8 per cent Hindus.

This religious homogeneity, as compared to Bangladesh's neighbour India, is mostly due to the historical origins of the country as the isolated eastern part of Pakistan, itself the result of the partition of the Indian provinces of Punjab and Bengal along religious lines at the time of India's and Pakistan's independence in 1947. Today's Popular Republic of Bangladesh thus results from a sequential process of independence: from India or the United Kingdom at the time of the partition, and from West Pakistan twenty-four years later, after a short but deadly war in which dissident Bengali forces defeated local West Pakistani forces thanks to the support and very effective involvement of the Indian army.

C A Short Political History of Bangladesh

Independence was proclaimed on 16 December 1971. Since then, however, the political history of Bangladesh has been rather turbulent, at least until a little more than ten years ago. As it had a clear impact on development, and on the evolution of institutions in Bangladesh, it is worth briefly listing the main episodes in that history, and the enduring struggle between the two main political parties, the Awami League (AL) and the Bangladesh National Party (BNP).[1]

[1] This section borrows from Raihan and Bourguignon (2023), as well as from Lewis (2011).

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

1 *The Difficult Advent of Democracy (1971–1990)*

The AL had been in existence practically since the creation of Pakistan, at the time of partition. Of a clear socialist bent, the party relentlessly pursued autonomous status for the eastern part of the country, starting with the right to use the Bengali language rather than the Urdu spoken in the western part. Mujibur Rahman joined the League shortly after its creation and soon became its main leader, attracting as much popular support for himself personally as for the League itself. This backing was so strong that the AL won the 1970 national election against the main western party. Violent repression by the defeated government followed, which triggered the independence war, which was deadly but short. The East defeated the West with Indian support. In 1971, Mujibur Rahman became the president of the now independent East Pakistan, which was renamed Bangladesh – 'Bengali land'. At the same time he won the title of 'father of the nation'.

After a violent war, which had followed a devastating cyclone, Bangladesh was in a dire state. Mujibur Rahman almost had to reconstruct the country. His period of leadership was short but intense. Guided by four fundamental principles – 'nationalism, secularism, democracy, socialism' – he laid the foundations of a new state along socialist lines, including the nationalisation of many industries and businesses abandoned by the West Pakistanis after the war, land reform and the introduction of agricultural cooperatives, and the expansion of primary education and other public services. Time was too short for Rahman to see the result of these initiatives. Showing a personal inclination towards religious movements, Rahman's rule was soon violently opposed by Communists, while, paradoxically, Muslim extremists reproached him for the secularist principle he had enshrined in Bangladesh's constitution. Sheikh Mujib, as Rahman was known, ruthlessly repressed these movements, jailing and often eliminating opponents to his rule, progressively transforming a liberal parliamentary political system into a single party (AL) authoritarian regime.

Rahman was assassinated in a coup managed by young army officers in November 1975. A period of disorder comprising various coups, counter-coups, and assassinations followed, until army chief Ziaur Rahman ('General Zia') took power in 1976. After running the country as 'chief martial law administrator' for some time, amidst continuing disorder and coup attempts, Zia overwhelmingly won the presidential election that was called in 1978. Soon after, he founded the BNP with a view to uniting people behind principles different from those promoted by the AL, particularly secularism and socialism. He also reinstalled the religious Jamaat-e-Islami party, which had been banned after independence on charges of complicity with West Pakistan.

Zia's rule was short too, though less disorderly than Sheikh Mujib's. In effect, he put the Bangladeshi economy back on track. On the economic front, he focused on boosting agricultural and industrial production by promoting private sector development, export growth, and the reversing of farm collectivisation. Production quotas and other restrictions on economic activities were lifted. A rural development programme was implemented, which comprised innovative social aspects as well as measures to control population growth. Major infrastructure projects were launched, including irrigation canals, power stations, and roads. On the political front, Zia reversed the strong secularist principles imposed by Sheikh Mujib, giving more public space to religion and a greater voice to Islamic movements in a restored multi-party system. Once elected as president, he normalised political life, re-established public order, and tried to rein in the military.

Zia, too, was assassinated in 1981 by a previously high-ranking officer who had been demoted. The rebellion was quickly put down and a civil caretaker government was put in place. Yet the army was not willing to step aside. Another coup soon unfolded, and power fell into the hands of General Ershad, the very officer who had subdued the uprising that followed Zia's assassination.

When he declared himself president in 1983, Ershad immediately faced violent protests from most political parties, as well as from university students and the civil society in general. Thanks to the army's support, he managed to stay in power; he created his own political party, the Jatiya Party, and called a parliamentary election in 1986. The AL, small left-leaning parties, and Islamic parties participated in the election, but the BNP boycotted it. The election was won by the Jatiya Party, amidst allegations of election-rigging and manipulation.

In 1989, General Ershad passed through parliament an amendment to the constitution that made Islam the 'state religion'. Protests amplified, huge marches took place in the later months of 1990, and eventually the military also withdrew their support for the general. Ershad resigned and handed over power to a neutral interim caretaker government, which was mandated to hold free and fair national parliamentary elections within the following 3 months. This was the end of the military rule in Bangladesh and the beginning of democracy. But politics did not become more peaceful.

2 *The Competitive Democratic Era (1990–2011)*

Two strong personalities have marked Bangladeshi political history since the return to democracy and the 1991 election, who perpetuate the dichotomy that appeared soon after independence between the two differing approaches of Sheikh Mujib and General Zia to the economy and the society. In the post-1990 period, the daughter of the former, Sheik Hasina, headed the AL, whereas the widow of the latter, Khaleda Zia, led the BNP. The political history of Bangladesh in the 1990s may be summarised as a continuous struggle between these two personalities who democratically succeeded each other at the helm of the country but, at the same time, did all they could, often undemocratically, to eliminate their competitor from the political map. One of them eventually won.

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

It cannot be said that the struggle between the two parties had greatly to do with different views of, or strategies for, Bangladesh's development; rather it had to do with personal animosity between the party leaders and, more decisively, the control of the society and sources of rent within it. All means to win the fight were used, from organising violent protests, to election-rigging, to jailing opponents, to boycotting elections with the hope of nullifying them, to buying support. If the regime was officially democratic, political practices were not.

The BNP won the 1991 election and Khaleda Zia became prime minister after a vote on the constitution transformed the presidential system set up by General Zia into a parliamentary regime. Accusations of election-rigging in the replacement of one particular MP triggered a protest and a general boycott of parliament by the opposition, led by the AL. Likewise, the 1996 election, initially won by the BNP due to the opposition boycott, raised so much protest that the government had to accept new elections under the aegis of a caretaker government. The AL won, and Sheikh Hasina became prime minister. The economy of Bangladesh grew steadily during Sheikh Hasina's tenure as prime minister, yet politics remained very tense, with several protests and strikes led by the BNP, political violence in the streets, and boycotts of parliamentary proceedings.

The rotation in regard to which party held power continued. The BNP prevailed in the 2001 election, organised again by a caretaker government. Khaleda Zia returned to power with a strong anti-corruption programme, which led to her government jailing Sheikh Hasina for a while on corruption charges. Towards the end of 2006, as new elections approached, the country again witnessed serious political unrest, with a demand for a 'free and neutral' general election under a neutral caretaker government. This led to the formation of a 'civil' caretaker government backed by the military in January 2007, which ruled for the next two years while trying to 'normalise' the political game, including through a failed attempt to exile the two 'begum'[2] contenders.

In the December 2008 national election, the AL returned to power, with 230 out of 300 parliamentary seats, and Sheikh Hasina returned as prime minister. In May 2011, the Supreme Court ruled that the system of the interim caretaker government was unconstitutional – a decision that was motivated by the experience of a two-year period during which the caretaker government practically abolished political parties and launched policy reforms, which was not within its formal mandate. This ruling *de facto* reinforced the party in power. The BNP boycotted the 2014 election, fearing it would be fixed and amidst severe repression by the AL government. It failed in imposing

[2] This was the popular title given to the two ladies at the head of the two main political parties. Begum, originally an Indian name for princesses or kings' spouses, is a Muslim honorific title for a respectable lady.

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

a caretaker government arrangement for that election. Consequently, the AL found itself with an overwhelming majority of seats in parliament. It has remained in power until now.

3 The Era of the Dominant Party

After again winning the election in 2020, Sheikh Hasina has now run the Bangladeshi government for fourteen years. The question then arises of whether this longevity is the result of an effective steering of the economy and the society, or of specific policies implemented by the AL, or the vanishing of the main opposition party.

Most Bangladeshi political commentators seem to agree on the fact that ideological differences between the two parties are small. The AL is considered to be positioned on the centre-left, with possibly more liberal views than the BNP, which is more centre-right and conservative, in part because it is closer to Islamic values. However, this can hardly be taken as the reason why the latter has lost traction with the public. Doubtlessly, being in power helped the AL weaken the BNP – for instance, by jailing Khaleda Zia, whose son seems not to have been an effective substitute for his mother. But it is equally certain that the BNP has made political mistakes that have progressively driven it away from its electoral base. In fact, many people feel that the two parties are equally corrupt, undemocratic, and ideologically neutral, but also that Sheikh Hasina has been smarter and shrewder than her opponent.

In any case, since 2008, Bangladesh has clearly entered into an era of a dominant party whereby the AL not only steers the country but also exerts tight control over the whole society, thanks in particular to a ubiquitous presence in rural areas and effective networking in urban areas. With Khaleda Zia jailed on corruption charges for several years since 2018 and her son Tareqe in exile, and also sentenced to multiple years in prison in Bangladesh, the BNP has been decapitated. In the absence of effective and dynamic substitutes for the historical leaders of the main opposition party, the AL seems to have few obstacles to a long tenure in power.

Compared to the tumultuous past, this dominant party regime provides a degree of stability in the political system never seen since independence. This has undoubtedly had a favourable impact on economic development, even though, interestingly, growth was apparently little affected by the political turbulence of the competitive democracy era. However, this political stability should not be confused with progress towards democracy. Recent national elections, and many local-level elections, aroused allegations of irregularities. A decline in participation in elections is observed. There are concerns that the national parliament is dysfunctional when it comes to having meaningful debates on development issues, democratic rights, and freedom of expression. There are also concerns among civil society about the squeezing of the democratic space. It remains an open question the extent to which this state of affairs threatens political stability and the AL's dominance in the future.

D Sources of, and Challenges to, Economic Growth

Bangladesh's experience in regard to economic growth and development over the five decades since independence has generated much interest among academics and development practitioners, both at home and abroad. From its war-torn economy of 1972 until now, Bangladesh has been able to increase its per capita GDP in real terms 3.7 times (from US$460 in 1972 to US$1,700 in 2018),[3] cut the poverty rate from as much as 71 per cent to 20.5 per cent over the same period, become the second largest exporter of RMG in the world, and registered some notable progress in social sectors. In 2015, it graduated from the World Bank's low-income category to lower-middle-income country category. Also, Bangladesh is now on track to meet the criteria for graduating from least developed country (LDC) status by 2024. At the same time, however, Bangladesh's development has happened in a widely recognised context of weak institutions. It has always been ranked in the very bottom of most international rankings of governance indicators. As was just seen, up to the late 2000s, its political climate was extremely tense, unstable, and often violent. All of these factors have prompted some analysts to term Bangladesh's economic development success as the 'Bangladesh paradox' or the 'Bangladesh surprise'.[4] The rest of this short summary of the IDP Bangladesh case study is devoted to explaining this paradox and, most importantly, to assessing whether it can be sustained: namely, whether growth can continue at the same speed without a major change in the institutional setting.

1 Growth Performance

GDP growth in Bangladesh has accelerated continuously since the days of independence. From an annual rate of around 3.7 per cent in the 1970s, it reached 4.7 per cent in the 1990s, and has gained 1 per cent every decade since then. It was close to 7 per cent just before the break caused by the COVID-19 pandemic in 2020. With an annual population growth rate now of around 1 per cent, GDP per capita has followed a growth trend of 6 per cent over the last ten years or so. Few countries can boast such performance.

From an accounting point of view, roughly two-thirds of the increase in GDP per worker results from capital accumulation and one-third from total factor productivity (TFP). Within a causal perspective, however, three main factors are behind Bangladesh's growth performance: (a) RMG exports; (b) hard currency remittances from the huge and growing population of Bangladeshi workers abroad, predominantly in the Gulf countries; and (c) a reasonable macroeconomic management.

2 The Key Role and Challenges of the RMG Sector

The growth of Bangladesh's RMG exports has its origins in the international trade regime in textiles and clothing, which, until 2004, was governed by

[3] At constant domestic prices in 2018 US$.

[4] See World Bank (2007) and Mahmud et al. (2010).

Multi-Fibre Arrangement (MFA) quotas. This quota system restricted competition in the global market by providing reserved markets for numerous developing countries, including Bangladesh, where textiles and clothing items were not traditional exports. Bangladeshi entrepreneurs were smart enough to seek help from South Korean companies in setting up their operations and making sure they would reach their quota. They were also able to make deals with the government to obtain exceptional facilities. Yet the real surge in RMG exports took place after the MFA regime ended, when the international market was liberalised and the RMG Bangladeshi sector appeared as particularly competitive, partly because of its previous experience within the quota system and partly because of its very low labour cost, relative to other producers in developing countries (outside China). RMG exports thus increased from US$5 billion in 2003 to US$40 billion in 2019 (at 2015 prices), an annual growth rate of 13 per cent.

The growth of RMG exports has been one of the main growth drivers of Bangladesh's economy over the past three decades. By its forward and backward linkages, and by the hard currency it provides to the whole economy, its contribution is much larger than a simple calculation based on its GDP share would suggest. An econometric exercise has suggested that the elasticity of GDP to the volume of exports is around 22 per cent. Since 2004, it would thus have contributed almost 3 percentage points to overall GDP growth – about half of it.[5]

Despite this impressive growth record, it bears emphasis that the export base and export markets have remained rather narrow, which is a matter of great concern. Undiversified exports, both in terms of market and product range, are likely to be much more vulnerable to external and internal shocks than well-diversified exports. Despite repeated government statements, and even commitments, Bangladesh's diversification of manufacturing exports seems to have failed. UNCTAD's[6] export concentration index even suggests that, instead, export concentration has increased over the last two decades. It is higher today than in the average low- or lower-middle-income country. The performance is equally dismal with respect to the Economic Complexity Index, thought to be related to the process of economic growth.[7]

This situation is still more worrying today as graduation from LDC status will terminate the trade preferences Bangladesh enjoys in advanced economies' markets, as pressure increases internally to improve the conditions of RMG workers, and as technological progress drastically modifies production conditions in the RMG sector.

3 *The Role of Migration*

It is estimated that 10 million Bangladeshis are working abroad today, three-quarters of them in the Gulf countries. They send home some US$22

[5] See Raihan et al. (2020: Chap. 2).

[6] United Nations Conference on Trade and Development.

[7] See Hidalgo and Hausmann (2009).

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

billion in remittances. This is approximately half the export revenue of the RMG sector. Unsurprisingly, the amount remitted – and, presumably, the number of migrants – closely follows the level of economic activity in oil-exporting countries. Remittances rose from US$2 billion in the early 2000s to US$16 billion in 2014, as the price of oil roughly doubled during that period. They then stagnated, before recently rising again.[8]

In the econometric exercise referred to earlier, which estimates the sources of growth in Bangladesh, the elasticity of GDP growth to remittances, after deflating them by the appropriate price index, turned out to be 0.14. Given an average growth rate around 11 per cent, real migrant remittances explain approximately 1.5 percentage points of the annual growth rate of GDP over the last two decades or so. Together with RMG exports, they thus represent practically two-thirds of overall GDP growth performance.

There are no precise data on the gross or net annual flows of migrants from Bangladesh and back. From the national economy perspective, it is the net flow that matters.[9] Based on rough estimates of the number of Bangladeshi workers abroad, the average net outflow might have been as high as 400,000 workers a year over the last two decades.[10] Such a figure suggests that roughly 30 per cent of the net annual increase in Bangladesh's labour force is employed abroad. In other words, the increase in the local labour force would have been 40 per cent higher without the migration outlet. The stock figure is a little less alarming: if all Bangladeshis working abroad were to return, the labour force would grow by 15 per cent.

Based on these estimates, not only did migration contribute to growth through remittances it also considerably eased the pressure on the supply side of the labour market, especially for low-skilled work.

4 *Structural Economic Transformation in Bangladesh*

Bangladesh may be considered the typical country as regards the Kuznets/Lewis theory of dual development (Kuznets, 1955; Lewis, 1954). Overpopulated, with huge pressure on land, without natural resource rent, the economy is divided into two sectors: a traditional, mostly agricultural, sector that is home to a majority of the population, but with surplus labour, low marginal productivity, and low average income; and a modern or formal sector employing people at a higher level of productivity and with higher wages but where employment is limited by available equipment. Capital accumulation in that sector, most often assimilated to manufacturing and associated upstream and

[8] See Raihan et al. (2020: Chap. 2, p. 13). On the correlation between migration and oil prices see Bossavie et al. (2021).

[9] A recent official statement refers to a plan to 'export 1 million migrant workers to different countries around the world' in 2022, and boasts a successful COVID vaccination programme that can help reach that goal. 'Bangladesh sets target to send 1 million workers abroad in 2022' (Arab News, 2022).

[10] This is based on the stock of workers abroad having increased from 2 to 10 million between 2000 and 2014 – see Raihan et al. (2020: Chap. 2, p. 12).

downstream sectors, is the engine of growth of the economy. It generates both aggregate growth and structural transformation by employing a rising share of the labour force, thus reducing the employment share of the agricultural sector, lowering the extent of surplus labour, and increasing average income. If accumulation takes place at a rate that is fast enough, a time comes when surplus labour has been eliminated from the traditional sector, the marginal labour productivity gap with the modern sector starts to shrink, and the traditional sector modernises. At the same time, clear improvements take place in terms of poverty and income distribution.

Such a view of development is extremely schematic. Actual development processes are much more complex than this simple accumulation and sectoral transformation mechanism. Moreover, there are many factors that may derail this mechanism, starting of course with a low accumulation process in the modern part of the economy. Yet this model provides a simple benchmark by which to evaluate development progress: in particular, the capacity of the economy to absorb the huge pocket of poverty in the traditional sector.

Where does the economy of Bangladesh stand on this dualistic path? Without any doubt the structure of the economy has drastically changed over the last two or three decades. The GDP share of the agricultural sector fell from 32 per cent in 1991 to 13 per cent in 2018, whereas its employment share plummeted from almost 70 per cent to 40 per cent. Overall labour productivity thus increased thanks to this major structural shift. An interesting feature of that process, however, is that within-sector productivity also increased at a fast speed. This is true of the manufacturing sector, where it was multiplied by almost eight, in part thanks to the increasing specialisation in RMG, but also in agriculture, where average labour productivity was multiplied by four.

The possibility that the average labour productivity gains in agriculture might be essentially the reflection of less underemployment in farming has to be examined. In fact, something of this type may have occurred in the early 2000s, when the absolute number of people employed in the agricultural sector declined rather sharply, at the same time as average productivity was increasing. From the mid-2000s on, however, the number of workers has remained approximately constant, while productivity continued to increase at a fast speed. This logically leads us to conclude that surplus labour was eliminated around that time in Bangladesh. Even though the productivity gap between agriculture and manufacturing keeps widening, this is not the case when the comparison is made between agriculture and the rest of the economy: here, the gap is closing.

This apparent success of the Bangladeshi economy in completing the first step of the structural transformation while recording substantial progress in productivity across sectors must nevertheless be mitigated by the key role played by migration. Per se, it is unlikely that the dynamism of the manufacturing RMG sector and its backward and forward linkages would have been strong enough to achieve the structural transformation just described. In the absence of migration, and over two decades, the non-agricultural sector should have absorbed 8 million more workers – roughly a third of the jobs that were actually created.

As for overall growth, Bangladesh's success in triggering this structural transformation of its economy, and the subsequent drop in poverty, is, in major part, the result of RMG exports and migration. Yet the fragility of this twofold engine of growth and structural transformation cannot be underestimated. On the one hand, remittances depend on oil and gas price cycles in Gulf countries at a time when efforts will be made in the world to reduce fossil fuel dependency. On the other hand, RMG exports may be affected by the loss of LDC status in a few years, by harsh competition in the world, and by the need to lift the pressure on labour cost that has led to an almost continuous increase in income inequality over the last three decades.[11]

E Social and Institutional Challenges of Bangladesh's Development

Bangladesh's undeniable success in terms of economic growth and structural transformation, particularly over the last two decades, hides not only some fragility but also deep weaknesses, which may develop into a true handicap in the future. As is well-known, Bangladesh ranks near the bottom of most international governance scales, be it in terms of the control of corruption, state capacity, or the rule of the law. In-depth analysis of several sectors, as conducted in the IDP case study of Bangladesh, makes it possible to document more precisely the flaws in the management of the economy that lie behind this dismal ranking. Such flaws can be observed in most sectors, from infrastructure, to tax collection, to the disastrous regulation of the banking sector, to the judiciary, and to the state bureaucracy, as exemplified in the educational sector. It is fair to say that some progress is being made in some domains, in particular in the provision of energy and the electrification of rural areas, and in school enrolment. It is also the case that, in social matters, an extremely dynamic NGO sector, some parts of which have a worldwide reputation, like Grameen Bank and BRAC, is partly remedying the weaknesses of the government's management, especially in the fields of health, education, and the fight against poverty in general. Yet huge progress is still to be accomplished, as can be seen from the few examples briefly summarised below.

Little will be possible, in fact, if public resources remain as limited as they are today. With total *tax receipts* below 9 per cent of GDP (among the lowest in the world) and limited non-tax public revenues, Bangladesh's public sector suffers from severe atrophy and has a restricted capacity to provide the public goods and services that are needed to extend the industrialisation process beyond RMG exports and to cover basic social needs in the areas of education and healthcare.

11 See Raihan et al. (2020: Chap. 2, p. 27).

On several occasions, the present government has explicitly mentioned the need to raise taxation. Analysis shows that a large part of the problem comes more from tax collection than from too low tax rates or too narrow a definition of taxable assets. No reform has been implemented so far. An ambitious reform of VAT collection was proposed a few years ago but was cancelled at the last moment. The blockage seems to come from an implicit coalition between tax personnel and politically powerful taxpayers, which successfully prevents the introduction of automated procedures that would improve asset transparency, both for direct and indirect tax, and therefore tax collection. The consequence of this situation is not only a dearth of public services, but the informalisation of the economy, since a majority of small and medium firms are able to evade taxation.

The *banking sector* is another area where corruption is a source of inefficiency. Bangladesh is at a stage where this sector, which was initially completely state-owned, has been substantially privatised, with several new banks recently licensed. Yet some important banks and financial institutions remain in the hands of the state, leading to a dual structure of the whole sector. If, overall, the sector has been, and still is, effective in supporting the development of the RMG and other sectors, most often through exclusive deals made between powerful entrepreneurs and private banks, it also shows major weaknesses and exhibits serious failures of regulation, most notably apparent in recurrent excessive non-perfoming loans (NPL). Often caused by fraudulent behaviour rather than problems of profitability, NPLs exert adverse effects on the efficiency of the economy, reinforce the culture of corruption in the country, and contribute to rising inequality. Several major scandals have occurred, showing how deep corruption may be entrenched in this sector, despite, paradoxically, its capacity to finance the dynamic part of the economy.

A major institutional weakness of the banking sector is the lack of autonomy of the central bank in regard to regulating the sector, because of the clear subordinate position of the governor with respect to the government, and, through political links, private bankers. In this respect, the Bangladesh Association of (private sector) Banks, and the increasing political support it can command, represents a major obstacle to effective regulation.

Primary schooling may serve as a good illustration of the issues that are typical of the delivery of public services in Bangladesh: positive efforts are made but their results fall short of what is expected. In primary education, the government boasts an impressive record in regard to increasing enrolment and achieving gender parity. But this is tempered by the growing body of evidence showing that learning outcomes for many children are extremely poor. The main systemic challenges in this sector can be categorised as follows: (i) a complex coexistence of various actors faced with confusing and sometimes conflicting divisions of responsibility; (ii) a lack of resources – Bangladesh devotes only 0.8 per cent of its GDP to primary education, infrastructure is poor, and teachers' salaries are abnormally low, being slightly under per capita GDP; and

(iii) in regard to teacher recruitment and management, recruitment is flawed, with corruption problems including political influence and bribing, while the monitoring of teachers (absenteeism or performance) is weak.

Although the problems in Bangladesh's education system, and indeed in its public services more generally, are both severe and deep-rooted, there are various reforms which could and should be undertaken but which have been set aside. The historically low budgetary allocation towards primary education suggests that an increase in resources to the sector ought to be a major political priority, even though it will not solve all the problems.

Land markets raise important institutional issues in many developing countries but especially so in Bangladesh, as land is so scarce, and the population is so large. The way they function in Bangladesh leads to two major difficulties: an inequitable and not necessarily more effective distribution of land, and constrained industrial development. The growing inequality in the distribution of land results from arrangements that involve corruption, nepotism, and the interference of business elites acting through political parties, rather than neutral market operations. Consequently, the land administration has not only been captured by elites but has also become resistant to reform or effective regulation, and the more the system works in their favour the greater their resistance to reform. The same analysis applies to Bangladesh's attempt to use Special Economic Zones (SEZs) to attract industrial investors despite the scarcity of land. The institutional mechanisms for acquisition and compensation are subject to a range of corrupt practices, which in turn create vested interests that resist change and a bias towards politically connected purchasers, or towards those who are willing and able to pay bribes. Such an environment is inimical to a good business climate and undermines the potential industrial incentives provided by the SEZs.

Another consequence of the way land reallocation operates is the dispossession of some landowners, who then become pure land tenants. Landlessness has greatly increased in rural areas, with the proportion of pure tenants surging from 45 per cent to 65 per cent since 2000 (Sen, 2018). Moreover, a survey conducted by the Manusher Jonno Foundation in 2015 found that around 70 per cent of households reported losses of land in the previous ten years, with 17 per cent reportedly the victims of land grabbing (MJF, 2015). Such a situation reveals not only illegal land acquisitions but also the incapacity of the judiciary to handle such abnormal behaviour. *Weak judiciary systems* are a feature of most developing countries, if only due to a lack of resources and a lack of human capital. In the case of Bangladesh, however, the situation is worse because of an implicit coalition of most actors within the judiciary, from clerks to lawyers to judges, in delaying the conclusion of cases, and repeatedly bribing plaintiffs to supposedly accelerate procedures. Meanwhile, land grabbers exploit the lands they have seized.

One could multiply the examples of ill-functioning public entities. What is surprising is that these are often well documented in the media and yet do not arouse any real corrective reaction by those government agencies that are supposed to control, in an independent way, behaviour that deviates from legal norms. The reason is that those agencies are, in effect, tightly controlled by the government. As an example, the head of the Anti-Corruption Commission is appointed, and may be dismissed discretionarily, by the government. In addition, the Commission must obtain the government's permission to investigate or file any charges against bureaucrats or politicians. Even when granted such permission, the Commission may end up declaring suspected government members innocent, against existing evidence. This has recently occurred in the case of a widely publicised scam.[12]

An interesting question in view of this situation is why such scandals do not help the opposition parties gain more support. One reason is their present weakness. Another is the conviction among the public that they were equally corrupt when in power, and would still be if they were to come back. This kind of affair is therefore considered something almost 'ordinary'.

One could also consider that the abnormally low level of governance quality in Bangladesh is of lesser importance in the public opinion than the good performance of the economy. After all, incomes are growing and poverty falling, and even though inequality is increasing, most people have seen their standard of living improve. Thus, why should they care about poor governance?

Of course, this is fine as long as growth continues to be strong, with more RMG exports and more people going to work abroad. The challenge is that this may not last if no action is taken to diversify the economy and to prevent the growth engine slowing down in the coming years. Ill-functioning institutions may hinder a positive turnaround. This is one of the key elements of the institutional diagnostic that was established for Bangladesh.

F The Bangladesh Institutional Diagnostic

Medical diagnostics start with listing symptoms, before elaborating on the proximate causes of those symptoms and then identifying the deep factors that may permit or prevent correction of them. Our institutional diagnostic follows the same logic.

1 Institutional Weaknesses and their Economic Consequences

In establishing an institutional diagnostic of economic development in Bangladesh it is first necessary to identify the obstacle that prevents the implementation of a strategy of diversifying manufacturing exports, which will avoid a future slowdown of the pace of growth and structural transformation.

12 In 2016, the World Bank cancelled a US$1.2 billion loan for the construction of a bridge because of some evidence that the Canadian company that had won the bid had bribed Bangladeshi officials. The case was investigated by the Anti-Corruption Commission, which finally declared the suspected government members innocent despite the evidence against them.

It should be noted, moreover, that this diversification should take place as much within the RMG sector, the production of which remains extremely concentrated around a few limited ranges of products, as in other labour-intensive sectors like footwear or leather products. The in-depth analysis in the IDP case study of Bangladesh suggests that, following Hassan and Raihan (2017), this obstacle is to be found in the culture of 'deals' that characterises policymaking in Bangladesh. To be sure, planning exercises are undertaken at five-year intervals, and these prioritise manufacturing export diversification through a list of sectors supposed to benefit from the same advantages as the RMG sector. There were some fifteen such sectors in the last five-year plan. Practically speaking, however, decisions about implementation are taken based on arrangements between the political elite in power and dominant entrepreneurs, or sectoral representatives in the case of the RMG sector, without real consideration in regard to the priority list. As a result, most support to exporting activity and infrastructure investment is concentrated in the latter.

Although this *supremacy of deals over formal industrial policymaking* has worked in the past, as exemplified by the phenomenal development of the RMG sector, it has now become an institutional obstacle to the diversification of the economy. This is due to a kind of capture of the government by part of the business elite, and the short-sightedness of both sets of actors.

A second generic institutional weakness that comes out of the analysis in the previous section is the *ineffectiveness of the regulation* that the state is supposed to exert over economic activity to prevent inefficient and inequitable outcomes. This is evident in the dysfunction of the banking sector, the failure to regulate labour conditions in a key sector like RMG (as evidenced by the Rana Plaza accident[13] and the downward pressure on wages), the dismal performance in regard to taxation, and the poor performance in many other areas, including transport, drug administration, and, of course, the Anti-Corruption Commission.

The third major institutional weakness is *state capacity*. This major governance failure in Bangladesh takes different forms. Some are readily apparent, such as the lack of public resources and therefore the limited provision and low quality of public goods, the lack of skills in public service, and an inefficient administrative organisation. These are common across low- and lower-middle-income countries. Other forms of governance failure are more obscure, though equally devastating. This is the case of the high level of corruption found in most administrative clusters, which tends to make the delivery of public services both inefficient and inequitable, reduces revenues, and often discourages economic initiatives.

These generic institutional weaknesses of the Bangladeshi economy are not independent. Moreover, they must be considered more as the symptoms

[13] In April 2013, a Dhaka garment factory collapsed causing the death of more than 1,000 workers.

TABLE 3.1 *Institutional diagnostic table for Bangladesh*

Deep factors	Proximate causes	Institutional weaknesses	Economic and social consequences
Political settlement (political and industrial elites against labour) Winner-takes-all electoral democracy Vertical structure of political parties Vibrant civil society Population pressure on land (migration) Role of donors	Elite capture of government (e.g., RMG entrepreneurial class) Weakness of labour organisations Lack of resources and skills in the public sector Corruption equilibrium: – anti-reform coalitions – clientelism Inadequate laws and administrative organisation Opacity and unaccountability	Supremacy of 'deals' over formal industrial (and development) policymaking Ineffective regulation – banking system – tax system – labour conditions Weak state capacity: – weak delivery of public goods and services – ineffective and corrupt judiciary – corruption – ineffective and corrupt judiciary	Past successful development based on RMG exports but threats to future growth Excessive export concentration Suppressed labour regime Gender discrimination NPL leakage of resources Misallocation of investments Unattractive investment climate Abnormally low tax revenues Limited quantity and quality of public goods (education, infrastructure) Rising inequality and slowing down of poverty reduction Compensation for limited public goods by, and poverty reduction role of, NGOs

than the causes of ill-functioning institutions. A more complete picture of the institutional diagnostic appears in Table 3.1, which tries to put the preceding weaknesses in a double perspective: it shows, on the one hand, the social and economic consequences of the preceding weaknesses, and, on the other hand, the proximate causes and deep factors behind them. In reading this table, though, it is important to keep in mind that there is no one-to-one relationship between items at the same level in various columns. Causality must be understood as proceeding from column to column rather than from item to item.

2 *Proximate Causes*

Six items appear in the 'proximate causes' column. Some of them are rather obvious. *The lack of resources and skills* or the *culture of corruption*, where every actor expects others to behave in a corrupt way, are directly responsible

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

for the weak state capacity and the ineffective regulation of the economy by the state. It bears emphasis in the case of Bangladesh that the lack of resources is partly self-inflicted since it is largely due to the abnormally low level of taxation. There is thus a circular relationship between the proximate causes and the symptoms of institutional flaws. It is also clear that the *elite capture* of the government by the entrepreneurial class, particularly from the RMG sector, explains the supremacy of deals over formal industrial policy. As the sector gained in importance, both through its size in the domestic economy and its dominant role in exports and general economic growth, it quickly acquired considerable leverage over the government, whichever party was in power at the time. Equally clear is the role that the *weakness of labour organisations* and their acceptance of low wages play in helping the RMG sector maintain its global competitiveness, and therefore its dominant position in the home economy. Here, too, the relationship is circular.

Several *laws and administrative organisations* are obsolete or inadequate, and weaken the institutional framework. This includes some land laws inherited from the colonial or the pre-independence period, and overlapping administrative responsibilities in land matters, primary education, and the regulation of banking. The independence of regulatory agencies from central power is another area that needs reform. As they presently stand, these agencies favour the *opacity and unaccountability* of the public sector and severely limit its exposure to the public opinion, despite a vibrant private mediatic context.

3 Deep Factors

Deep factors are those factors that constrain reforms that would remedy the proximate causes of basic institutional weaknesses. It bears emphasis that the term here refers to institutional factors that may hinder development, and not to development itself. For instance, the geopolitical location of Bangladesh is a deep factor that influences its development, but it is not clear that it plays a direct role in explaining the basic institutional weaknesses or the proximate causes set out in the diagnostic table above. Unsurprisingly, many of these deep factors are thus of a political economy nature.

The *political settlement* between the industrial elite and the political elite, whatever the government in place, is a case in point. This factor echoes the elite capture proximate cause discussed above but is more fundamental. The political settlement factor refers to converging interests between whoever is in government and the industrial elite, especially the RMG business leaders. The implicit agreement provides that the government will provide strong support to the rapid development of RMG exports, at the cost of repressing labour, a condition that may be necessary to maintain the global competitiveness of the sector. Overall economic growth is the government's reward, the growth of their profits is the industrial elite's reward. As long as growth prospects remain favourable, and in the absence of major political change, this settlement may persist.

A second deep political economy factor refers to the *winner-takes-all* type of political confrontation between the two main parties in Bangladesh during the so-called competitive democracy regime described earlier. It may explain the absence of long-run structural reform during that period, as parties in government were too busy reinforcing their political base to win the next election. It is now the third time in a row that the AL has won elections, so that one may reasonably question whether a profound change has taken place in Bangladeshi politics. It must be recognised, however, that the democratic debate about long-run development objectives has always played a limited role in Bangladesh. This is even more true today, when the party in power has been able to successfully weaken and repress the opposition. Nor is a democratic debate taking place within parties. The two leaders have managed their respective parties with the same iron fist for the last thirty years, with little space left for dissenting minorities. The dynastic nature of power within the two parties does not suggest that this state of affairs is about to change.

The existence of a *vibrant civil society*, most notably NGOs, is another factor that has sometimes been proposed to explain the relative inertia of successive governments on the social front. Yet the substitutability between the government and NGOs is necessarily limited. The size of needs in areas like education and healthcare is such that NGOs can only play a marginal role, even though that role is crucial for the poorest segment of the population.

The inclusion *of population pressure* among the deep factors is meant to stress the high specificity of Bangladesh in this respect, and, implicitly, the major role of migration in reducing that pressure from an economic, social, and political point of view. Likewise, the mention of *donors* is made to recall the role they played in the past in financing the development of the economy and, in several instances, guiding its macroeconomic policy. Bangladesh's aid dependence has been limited over the last decade – that is, 1 per cent of GDP on average.

In the field of medicine, a diagnostic normally ends with a prescription. In the present case, the prescription would consist of those reforms meant to correct for the causes of institutional weaknesses, as identified by the diagnostic. The nature of reforms that would improve state capacity and the delivery of public services, modify inadequate laws, fight rent-seeking and corruption, and efficiently regulate the banking sector are rather evident. They are listed and discussed in the IDP case study of Bangladesh. More important is the political feasibility of these reforms, which depends on the deep factors that have just been listed but which may take on a different aspect in the particular context that characterises Bangladesh today.

G Conclusion

The preceding diagnostic may seem unduly negative. This is essentially because it is in the nature of a diagnostic to identify existing flaws and potential obstacles to progress, rather than positive factors. Despite an institutional framework that is extremely weak by international standards, the Bangladeshi economy has been able to grow at a fast pace, to reduce poverty, and even to undertake important reforms in the past decades. Even within a turbulent political context, Bangladesh's governments have shown a strong political will for reform on multiple occasions in the past, such as when they supported the RMG sector at an early stage, when they opted for rigorous macroeconomic policies, when they invested massively in power generation or liberalised imports, and when they opened up the economy. Political power, political determination, and policy wisdom were present in many uneasy but key decisions, as, for instance, when food rations were abolished on the grounds that they were a costly way of supporting the urban middle class, rather than the poor, or in the case of the pioneering introduction of food and, later, conditional cash transfers to accelerate universal primary school enrolment. In one way or another, the main question that arises from the preceding diagnostic is thus whether reforms aimed at eliminating notorious rent-seeking opportunities are much more difficult to achieve. Is the present Government of Bangladesh in a situation to undertake them, and is it willing to carry them out?

That the government is in the hands of a strongly dominant party ensures that political leverage for reforms does in principle exist. But at the same time the weakness of the opposition is a disadvantage because the threat it can issue against a wavering government is weak. Up to now, moreover, the economy has done well, with solid growth benefiting most of the population – though more so those at the top of the income scale – and without preventing part of the population having to go abroad to support their family. On grounds of pure political strategy, the incentives for reform may thus seem relatively weak. However, the present diagnostic has exhibited the serious risks to the future rate of growth in Bangladesh. At the top of the list, the COVID-19 pandemic has already slowed down growth, and potential geopolitical tensions in the post-COVID world add to the uncertainty arising from too specialised a development strategy. Taking advantage of the present political situation to launch reforms and to show results regarding both economic diversification and governance would do much to reinforce the party in power. If a power rotation takes place, on the other hand, these reforms would constrain the new government to follow the same principles of good governance and a sound rule of law, thus weakening its control over the opposition. For the party presently in power, and for the whole society, this is clearly a win-win strategy.

As mentioned at the beginning of this summary, the dichotomy observed in Bangladesh between weak institutions and robust growth was termed the 'Bangladesh paradox' or 'Bangladesh surprise'. At the end of this diagnostic one may ask whether such a paradox or such a surprise will persist. The answer is most probably not. Either growth will slow down without institutional improvement, or growth, and the transformations that come with it, will continue at the same pace but institutions will have been reformed. It behoves the present government to decide which direction to choose, considering that the political opportunity for ambitious institutional reforms may not last.

II TANZANIA

The following pages summarise an in-depth study of the relationship between institutions and development in Tanzania conducted following the methodology set out in Chapter 2. Only the essence of the original study is reproduced in this summary, but it is hoped that its main lessons for the understanding of the economic challenges faced by Tanzania, and the way they depend on institutional weaknesses, are truthfully presented here.

The summary is organised in the same way as the original study except for the thematic studies, which provided detailed examples of the way the nature and functioning of institutions affect Tanzanian development. Instead of summarising these, the summary focuses on what was learned from these studies about possible institutional obstacles to an acceleration of development.

A Geographical and Demographic Context

Today's United Republic of Tanzania results from the union of Tanganyika – a large area a few degrees below the equator on the shores of the Indian Ocean – and the Zanzibar archipelago off its coast. Tanzania is the biggest of the eastern and southern African countries, excluding South Africa. Except for the coastal area and Zanzibar, it consists of extensive rolling plains, interrupted by the Great Rift Valley, which cuts across the east of the African continent from north to south. The Rift crosses Tanzania in its western part, where it is interspersed by Africa's three great lakes – Victoria, Tanganyika, and Malawi (or Nyasa) – the shores of which are shared with neighbouring countries. Four major ecological regions are usually distinguished because of their highly differentiated climates: the mountain lands in the north (home to Kilimanjaro) and in the southwest receive generous amounts of rain; rainfall is also satisfactory in the lakeshore regions, especially lake Victoria's; however, the high plateaus that fill the centre of the country are semi-arid, whereas the coastal area is both hot and humid.

Overall, the country enjoys a high agricultural potential, which is presently far from being fully exploited. Only 30 per cent of the land suitable for cultivation is being farmed, often under harsh conditions, despite numerous rivers and lakes, which offer a huge potential for irrigated agriculture. Other natural resources include minerals like gold, some other metals, and gemstones, and fuels (essentially coal and gas), of which abundant reserves have recently been discovered offshore. Another natural resource is the beauty of the country's mountainous, sea, and savannah landscapes, as well as its world-famous reserves of wild animals, which altogether attract a considerable flow of tourists.

Tanzania is home to some 60 million people. Given its size, it is sparsely populated. However, as in most African countries, its population is growing very quickly and will reach 100 million before 2040. Because of the pace of demographic growth, the fast increase in the degree of urbanisation has not prevented the population density doubling in rural areas over the last thirty years, making land progressively less abundant.

The ethnic composition of the population is somewhat remarkable for its diversity, which is thought to have had a favourable influence on the early development of this part of Africa. About 120 different ethnic groups, most with their own language, cohabited for two centuries before colonisation, without any of them trying to dominate the others or to control the whole area. Still today, the largest group represents only 13 per cent of the population and the second largest only 4 per cent. Such an ethnic diversity is without any doubt due to the size of the area, the variety of its habitats, and the relative impracticability of travelling long distances. There is no doubt either that this demographic feature of Tanzania partly explains the political stability of the country once those heterogeneous groups were integrated into a single nation with a common language – the Swahili – and political institutions after independence. It also explains why Tanzania differs from its neighbouring countries and most sub-Saharan countries, where ethnic rivalry is frequent and has caused friction and conflicts that have proved harmful to development.

The presence of non-African racial minorities is another element in the heterogeneity of the population, with rather different implications. Arabs and Indians had always been present in the coastal area, the former being especially powerful when Zanzibar was the home of the Sultanate of Oman and controlled the whole East African shore from the late seventeenth to the late nineteenth century. More Indians arrived during the period when both Zanzibar and the mainland were under a British Protectorate. Like Arabs, Indians were especially active in trading, and more recently in light manufacturing. Both groups remain small minorities today, but their early business specialisation gave them economic power that is out of proportion to their demographic weight. The social distance between these groups and Tanzanian Africans is still detectable nowadays.

The European presence goes back to colonial times in the late nineteenth century, when Germany colonised the interior part of what is today mainland Tanzania, under the name of Tanganyika.

B A Short Account of Tanzania's History Up to Independence

German rule did not last long since the Germans were forced to leave after being defeated in World War I. Yet, despite fierce hostility from the indigenous population, the German colonisers were able to develop major export crops (sisal, coffee, cotton), to start the construction of a railroad network, and to lay the foundations of an administrative structure, as well as an educational system.

After the German defeat in 1918, Great Britain was entrusted with the Protectorate of today's mainland Tanzania. The country was then in a state of extreme underdevelopment, which had even worsened as a consequence of the fierce battles fought in that part of Africa between German, British, and Belgian colonisers, during the war. Yet two major factors prevented an economic development comparable to what could be observed in neighbouring British colonies. One was the relative lack of fertility of a large area in the interior of the country, which was invaded by the tsetse fly as a consequence of the war. The other was the limited attractiveness for European settlers of a territory whose political status was uncertain – being neither a colony nor an independent state. These may also be the reasons why the British administration was initially rather unambitious in its management of the country, mostly perpetuating the German colonial policies.

Things started to change after World War II as the newly created United Nations strengthened its control over territories with Protectorate status and pushed for more participation by the indigenous population. British 'indirect rule' was replaced by formal local governments with a multi-tier structure and increasing African involvement, while the Legislative Council of the Protectorate was progressively opened up to elected African members.

Independence was obtained peacefully. Under the leadership of Julius Nyerere, the Tanganyika African National Union (TANU) won practically all the seats on the Legislative Council open to election in 1958, and again in 1960. The British colonial secretary then acceded to TANU's demand for a 'responsible government' by Africans. One year later, independence was declared, with TANU as the party of government and Nyerere as prime minister. Three years later, the new Republic united with Zanzibar, where a violent revolution against the Arab minority, which ruled the islands, had just brought to power an African-dominated party. Together, they formed the United Republic of Tanzania, with Nyerere as president.

C A Synthetic View of Tanzania's History since Independence

1 The Socialist Era

Very much marked by neo-colonialism, development during the first years after independence was disappointing; an alternative strategy was called for. The president spelled out such a strategy in his famous 'Arusha Declaration' in 1967. It was a socialist-oriented development programme adapted to the African context under the label 'Ujamaa' ('familyhood' in Swahili). It comprised three dominant approaches: (i) an emphasis on the agricultural sector and the urgent need to improve its productivity, most importantly through regrouping dispersed subsistence farms into Ujamaa villages, which involved displacing part of the population; (ii) state control of the means of production and exchange, and thus nationalisation of a major part of the non-agricultural sector; and (iii) addressing the social demand for education, health, equality, and participation in public decision making.

Ten years later, the results of this strategy were far from spectacular. Nationalisation did not deliver on its promises because of mismanagement by bureaucrats, interference between managers and politicians, and mounting corruption at the head of nationalised companies. The results were especially bad in the agricultural sector. Although some productivity gains were achieved in the extensive cultivation of some export crops, the collective farms proved disappointing and villagisation essentially disrupted production processes. In a few years, Tanzania passed from being a net exporter to being a net importer of food crops. GDP growth slowed down, and income per capita started to fall after 1976, while severe balance of payment problems developed due to the poor outcomes of the Ujamaa strategy, a costly war with Uganda after the latter invaded the north-western part of the country, and strongly adverse changes in the terms of trade.

A National Economic Survival Programme was launched in the early 1980s, but it came too late and the international development community was called in to rescue the country. Nyerere resisted the pressure of donors and the IMF, which made their aid conditional on his amending his socialist strategy and implementing a return to market mechanisms. As the economic situation of the country continued to deteriorate, however, he was finally forced to accept a stand-by agreement with the IMF in 1985, after having broken off relations with that organisation a few years earlier. This agreement prefigured the Structural Adjustment Programme (SAP) signed later with the World Bank, whose aim was to see Tanzania transition back to a market-led economy and, as a matter of fact, to undo much of Nyerere's efforts to build a socialist economy. Nyerere then decided not to run for a new presidential mandate and left to his successor the task of managing the transition.

If the economic achievements of the Nyerere era were disappointing, the same cannot be said in the non-economic sphere. The nation-building project, which Nyerere embarked on notably by disbanding the multiple chiefdoms existing in the country and promoting Swahili as the lingua franca, brought about national unity and deep cohesion. This successful national integration drive was complemented by major social investments in literacy, education, and health programmes. In comparison with many other African countries, Tanzania is exceptional in the political stability it has experienced since independence, under the influence of Nyerere's probity and respect for constitutional rules. It is thus not surprising that, despite a failing development strategy, Nyerere is considered by a large majority of the population as the father of the nation.

2 *The Return to a Market Economy*

At the time of Nyerere's retirement in 1985, Tanzania was among the poorest economies in the world and faced a double challenge: to reduce poverty and to transition to a market economy regime.

If the disorder caused by the transition was particularly noticeable during the first five years after the Nyerere era, it took substantially longer for this

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

process to be completed and fully consolidated. Judging from the rate of inflation it was only slightly before the turn of the new millennium – that is, roughly fifteen years later – that the economy seems to have stabilised. The adjustment to a new regime indeed required major changes, from reactivating the price system and the agricultural distribution network to privatising the multitude of state-owned enterprises (SOEs), including in the banking sector, to dismantling privatised monopolies, and to downsizing and reforming the civil service. Overall, this heavy agenda was successfully and rather peacefully managed by the administrations that succeeded Nyerere.

Advances were also made on the front of political institutions, with two major constitutional changes taking place. The first change limited to two the number of five-year terms that a president can serve consecutively. The second change, common to many African countries, abolished single party rule. While the dominant single party, which had morphed from TANU to Chama Cha Mapinduzi (CCM) after the union with Zanzibar, remained foremost, opposition parties started to play a significant role in the political debate.

Quite remarkably, all of these changes in both economic and political institutions took place peacefully. The three presidents in command since the launch of the SAP in 1985 each ruled for two consecutive terms before leaving the political scene and letting new general elections – usually considered to be fair by outside observers – to take place in a rather quiet atmosphere (the elections to the autonomous government of Zanzibar being an exception). It is only in the last two presidential elections that serious accusations of vote-rigging have been put forward, at the same time as open political tricks appeared. In 2015, CCM nominated John Magufuli as its candidate, instead of former prime minister Edward Lowassa, who was the frontrunner but who had been involved in a big corruption scandal. The latter then defected from CCM and ran for president as the candidate of the main opposition party, which suggests that little ideological differentiation exists across the political scene. Lowassa was defeated and unsuccessfully charged the government with rigging the election. The situation was considerably worse in the 2020 election when Magufuli was re-elected with a suspicious lead over the other candidates, commonly attributed to harsh repression, manipulation, and widespread fraud. Magufuli died – probably from COVID, after having denied the reality of the pandemic – shortly after his apparently fraudulent re-election and was replaced at the helm of the country by his vice-president. At the time of writing, it is too early to know whether his move towards authoritarianism and away from the democratic practice which had prevailed since independence will persist.

Corruption has always been behind most Tanzanian politics and may be considered an inherent weakness of the country. Yet over time scandals have tended to become more frequent and to involve larger amounts. This has sometimes reached such an extent that donors, who are particularly important in the funding and designing of Tanzania's development strategy, have in various instances suspended their assistance. Magufuli was chosen as the CCM candidate in 2015 mostly because the party had been badly discredited due to a series of high-profile corruption affairs, and he was elected thanks to his anti-corruption image, acquired while he was Minister of Public Works in the previous government. Some considered his authoritarianism necessary to fight corruption and there are indeed some signs that corruption has receded. It remains to be seen whether this will be confirmed in the coming years.

D Economic Development Challenges

It would be tempting to say that the development of Tanzania since the mid-1990s – that is, after the transition to a market economy was fully achieved – has been a success story. On average, GDP grew at the rate of 6.2 per cent a year but, because of fast population growth, the growth rate of GDP per capita was only 3.4 per cent. Income per capita almost doubled over the last two decades, and Tanzania recently graduated from low-income to lower-middle-income status in the World Bank's country classification. However, a careful review of the Tanzanian economy suggests that maintaining past rates of growth may raise serious challenges.

The first cause for concern is the uncertainty about what could be Tanzania's long-run engine of growth. To a large extent, growth during the last two decades was pushed by the demand side of the economy, itself fed by increasing export revenues arising from improving terms of trade, and foreign financing. A sign of that bias is given by the exceptional dynamism of the construction sector, which grew twice as fast as the whole economy over the whole period. On the supply side, manufacturing has done slightly better than the rest of the economy, especially on export markets, but it is presently too small – less than 10 per cent of GDP – to significantly pull the economy forward. Agricultural exports have not over-performed either. Overall, it turns out that a good part of overall productivity gains over the last twenty years was due to a net reallocation of labour away from low-productivity agriculture to the rest of the economy. However, instead of being in favour of the high-productivity sectors, as in the celebrated Lewis model, the reallocation has concentrated on low-productivity sectors like retail trade or social and personal services. That such productivity gains are not sustainable in the long run is exemplified by the fact that productivity in these sectors has fallen, precisely because of the net influx of workers from agriculture. As high-productivity sectors absorbed only a tiny share of the net migration of workers, there is a risk that, without a powerful engine of growth in high-productivity sectors, labour will remain highly concentrated in the low-productivity part of the economy, thus contributing to slow overall economic growth, a slow reduction of poverty, and increasing inequality.

A second related challenge is precisely to selectively improve within-sector productivity, not to save on labour – the absorption of which is per se a major challenge – but, quite the contrary, to increase competitiveness in tradeable and reasonably labour-intensive sectors where autonomous development looks possible. Maintaining the investment rate at the 35 per cent of GDP level observed today should significantly contribute to this goal by drastically improving the infrastructure needed to achieve this objective. But such a high investment rate is itself a challenge. Exploiting untapped sources of efficiency gains is also needed. For instance, the difficulty of establishing firm land rights is often mentioned as a disincentive for innovation and investment in modern agriculture and agroindustry. The same is true of the lack of some skills in manufacturing, or rent seeking by bureaucrats.

The third challenge lies in freeing the economy from its strong dependency upon foreign financing. Even though it has declined over the recent years, foreign financing has always been sizeable. Official development assistance still represents 5 per cent of GDP – that is, a bit more than a quarter of the government budget and 14 per cent of gross investment. On various occasions, donors have mentioned their wish to reduce their support, arguing that this would be an incentive for the economy to become more autonomous. The Tanzanian government has explicitly concurred with this view. Yet it is unlikely that the current growth trend would be maintained if this flow was to dry up. Private foreign funds are not negligible either. Since the mid-2000s, foreign direct investment amounted to a little more than 3 per cent of GDP.

An important unknown for the future development of Tanzania is the fate of its huge offshore natural gas reserves, which were discovered in 2017. These could provide Tanzania with substantial additional revenues for twenty to thirty years after a five-year investment period. Their extraction cost is apparently high, so profitability requires an export price higher than has been observed throughout the 2010s. Negotiation with foreign companies for extraction, liquefaction, and export of gas broke down a few years ago, but they have just been reactivated. There is still much uncertainty about the extra income flow Tanzania could get in the long run from its gas reserves, even though earlier estimates suggested it could be modest if prices stay on their long-run trend.

A final cause for concern relates to the social side. Inequality has been increasing and poverty has receded at an unexpectedly slow pace. That growth has not trickled down more vigorously to all segments of the population is a challenge for the future. Increasing inequality may have adverse effects on future development through the demand side of the economy, by reducing the aggregate propensity to consume, and more fundamentally by undermining the social and political climate. The same remark applies to the stagnation of school enrolment, which is somewhat below universal primary schooling, and the low quality of the educational system in general, which may put future growth, poverty reduction, and the social equilibrium at risk.

More direct diagnostics of development challenges and firm manager surveys in Tanzania point to the lack of infrastructure, notably in electricity, the limited supply of skilled labour, and the low quality of the civil service and public service delivery as obstacles to accelerating, or even maintaining, the pace of economic growth. These obstacles are common to most low-income or lower-middle-income countries, however, so the real issue is whether Tanzania is successful in progressively overcoming them.

E The Perceived Quality of Institutions

The capacity of the country to address the development challenges summarised above depends on the quality of its institutions, which themselves will determine the effectiveness and inclusiveness of the policies that must be put in place. This is the goal of the in-depth study of Tanzania that is being summarised here. Before synthesising its conclusions, however, it is worth recalling the results of the thorough review of institutional indicators, and of opinion surveys undertaken in Tanzania, with the objective of getting a first idea of possible obstacles to future development.

According to several international databases on governance indicators, the most fragile institutional areas in Tanzania are the control of corruption, on the one hand, and government effectiveness, or administrative capacity, on the other. What is remarkable, however, is that in these two dimensions, as well as others, the quality of Tanzanian institutions turns out to be fully comparable to, and sometimes better than, its neighbours' – except Rwanda for the business environment – and even institutions among low-income countries, which have done significantly better over the last three decades. Opinion surveys among the Tanzanian population and among various types of decision makers also point to corruption as a severe institutional weakness, and further stress several institutional factors that may hinder future development. These include land rights issues, ineffective checks and balances on the executive, weak regulation of big business and utilities, a poor investment climate, and an inefficient civil service.

Of course, the institutional indicators and the preceding list of shortcomings are mixed bags. Yet the general picture they draw of economically relevant institutional challenges in Tanzania is consistent with a cursory review of Tanzania's political and economic history over the last three decades or so. It should also be noted that, when gathering personal opinions on the matter, we often heard that the control of corruption or state capacity are not worse in Tanzania than in comparator countries, and therefore cannot be considered as specific problems hindering Tanzanian development. This is not a convincing argument, though. Of course, these institutional weaknesses may have a negative impact in the other countries too. That they are present elsewhere does not mean that making progress at home on those institutional dimensions would not yield substantial benefits.

F Identifying Major Institutional Weaknesses

Having reviewed the main challenges of economic development, as well as the current political context of Tanzania, it is now time to focus more closely on institutional issues. Following the methodology set out in a previous chapter, the next step is to consider several thematic areas where development challenges are most apparent and are likely to provide evidence or hints on the way institutions help or hinder those changes that make development. Five such studies were conducted in the case of Tanzania. They focused on the following topics: (i) business and politics; (ii) state coordination and decentralisation; (iii) the civil service; (iv) land management; and (v) the regulation of the power sector. The main institutional weaknesses revealed by these studies are succinctly analysed in what follows.

The relationship between big business and politics has shaped Tanzanian development ever since independence. It is thus crucial to understand the nature of the forces that shape it, and their outcome.

A word about the players first. On the business side, most European capitalists left at the beginning of the socialist era and business was then essentially in the hands of Tanzanian Indians and, later, Arabs, a natural extension of the control they had very early on in trade activities. As a matter of fact, indigenous entrepreneurs at the head of medium and large firms or groups have always been a minority in Tanzania, to such an extent that there is only one African Tanzanian name in the list of the twelve richest businessmen in the country. On the political side, the government should be the main actor. However, the dominant party (CCM) has also played an important role because of the fragmentation of political power within the party – that is, the presence of several groups with major influence and with possibly diverging views on the 'right' policy. Nyerere was able for some time to control them, so that political power was reasonably centralised in the hands of the president, yet his grip had started to loosen by the end of his last term, possibly because of the disorder created by the nationalisation process and the multiplication of sources of rents linked to the expansion of parastatals and resulting from increasing disorganisation. Things became worse during the transition back to a market economy. On top of the opportunities arising from the privatisation drive, politically powerful individuals within CCM were able to make deals with businesses for their own interest, and then to impose them on the party and on the executive, using the prospect of party dismantlement as a threat. Deals could be of varying kinds. They could involve conceding competitive advantages to a business group against campaign financing, other indirect electoral benefits, or personal enrichment, or syphoning public resources through schemes involving private business. Major corruption scandals arose in those days, to such a point that donors suspended their aid on various occasions. A climax seems to have been reached at the end of the second term of Kikwete, Magufuli's predecessor. The dominant party's popularity was thereby severely damaged, and the party had to opt for an openly anti-corruption candidate to have a chance of winning the election. Over the last few years, the new president tried to turn the tide by attempting to regain the full control of the party, partly through internal politics, and partly by working to dry up those sources of rents originating in deals with the private sector, a strategy that led him to be particularly tough with both domestic and foreign big business.

Whether this strategy was successful, and whether it will be maintained, is still to be seen. Yet several interesting lessons can be drawn from this sketchy history of business and politics in Tanzania.

A first lesson is the utmost importance of the structure of political power. In Tanzania, the business–politics issue is not a 'government versus private sector' story only: it also comprises the control of the president over the dominant party. It is because the unity of the party is decisive at election times that it is difficult for the president to openly sack powerful party members who use their influence to sell competitive advantages to big business. This is a game with a bad equilibrium, where no player has an interest in making clean moves, with some entering into illegal deals and others not sanctioning departures from good conduct. At the end of the day, the personality, legitimacy, and authority of the leader is determinant.

A second lesson concerns the ineffectiveness of industrial policies, or even their fuzziness in a country where firms can buy direct competitive advantage through political friends. In Tanzania it has long been the case that 'traders' have an advantage over 'industrialists' because they are able to generate more resources and so to convince policymakers to maintain low tariffs on some strategic goods, the imports of which they control. Sugar and rice are typically goods which need some initial protection to generate the economies of scale that would make their cultivation and industrial transformation competitive. Absent this protection, they would be outcompeted by the imports favoured by the traders.

A third consequence of the varying relationship between business and politics since independence, and possibly of the dominance, until now, of big business by Tanzanian Asians and Arabs, is some heterogeneity or hesitation among policymakers about the latitude to be left to the market with respect to state authority. This situation creates some uncertainty, which is necessarily harmful to the economy.

Having established such a diagnostic, two questions should be asked. First, if vertical industrial policies fostering specific activities that are against the interests of dominant business groups are politically difficult to implement, why not promote horizontal policies that simply consist of improving the investment climate for all businesses by getting rid of numerous administrative frictions and burdens, whose main function is often to provide rent opportunities to certain bureaucrats? The point here is that corruption is contagious: it cannot be stopped in the middle range of the bureaucracy when illegal deals continue at the top. Also, it is not clear that dominant business interests could get a better investment climate than the one they enjoy through their partial control of politicians.

Second, can it be argued that the Tanzanian economy is doing relatively well, so that the business–politics collusion issue may not really be a big problem

https://doi.org/10.1017/9781009285735.006 Published online by Cambridge University Press

after all? Maybe, but the key question is whether it is possible to accelerate the present trend and, most importantly, to make it more sustainable and less uncertain in the future, when the external context may change and become less favourable? The relative weakness of tradeable sectors like agroindustry and manufacturing was underscored above, and it may be the case that the nature of the business and politics relationship bears some responsibility here. Yet progress has been made and it is unlikely that big business would not seize opportunities if they existed in these areas. On the other hand, choices may have been made that have curtailed these opportunities: think of the case mentioned earlier of the capture of some import markets that may have out-competed domestic production.

This issue of central control, which is so clearly illustrated by the inherent difficulty faced by the executive in regulating big business groups, despite their crucial role in the dynamics of the economy, is present in other aspects of public management. Paradoxically, successive administrations have apparently been strongly determined to centralise decisions and control, even though such a move was not justified in some cases, while a deficit of coordination exists between the executive and various decentralised administrative units and public agencies. That lack of control gives some leeway to civil servants operating in those entities – and therefore provides rent-seeking opportunities, which they are happy to exploit.

There are various reasons for such a situation. First, it is objectively the case that some sectoral administrations are simply ill-structured, which sometimes results in overlapping responsibilities, inefficient management, and possibly rent seeking. Examples include the following: land management, with a National Land Use Planning Commission that is redundant due to the presence of the Direction of Urban and Rural Affairs in the Ministry of Agriculture; the lack of coordination between the Tanzanian Revenue Authority, responsible for tax collection, and the Minister of Finance, which decides about tax schedules; confusion of mandates between local government executives and central government-appointed officers; or the intricate set of relationships between local government authorities, the Prime Minister's Office, the Minister of Finance, and various other ministries. Likewise, firm managers insist they must obtain the agreement of an abnormally high number of government agencies before they can market a new product or service, when only a couple of them could do the same job.

A second reason for coordination failures may be found in the complexity of various laws. The laws that govern the acquisition of land rights are especially intricate and require a heavy administrative apparatus, from central government to local village level. It is tempting for those in charge, and who are supposed to know the law, to take bribes from those who do not, or who are confused about certain aspects of the law. This is true at all levels: from an investor wishing to develop a large plantation to villagers concerned with the implications of leasing some of their land. The sensitivity of land rights in a country where a sizeable proportion of the land is cultivated by small farmers and is exchanged or transferred according to local customary laws is high. Hence the need for safeguards designed to avoid awkward situations in which villagers come to lease part of their land to a big company without knowing all the implications of such a transaction. The complexity of the existing law has been abundantly stressed and commented upon. Several reports have been commissioned which make suggestions for improving it, and successive governments have declared they would follow suit. Yet nothing has been done for the moment. The same complexity and procrastination is observed in the relationship between the central and local governments: a reform was voted on in the late 1990s and was supposed to be implemented by 2008, yet it is still pending more than ten year later.

Both the intricacy of the structure of public management and the complexity of the law may be related to another specificity of the Tanzanian economic culture: a selective distrust of market mechanisms. Such an attitude may be inherited from the socialist era, although the generation that had some responsibility during that time is now retiring. It is more likely due to the multiple cases of corruption that took place during the period of the return to a market economic regime – a period that was nicknamed *Mzee Riukhsa* ('everything goes') by Tanzanians. Likewise, in the 2010s, the leaders of CCM were afraid they would lose the coming election because of their tarnished image due to multimillion-dollar scandals. It is striking, too, to see how, in some respects, land laws appear to be reminiscent of the planning era and its deep suspicion of market mechanisms, and this despite the fact that the law was voted well after the end of the socialist regime. There may be good reasons for this, but too rigid a process of land allocation entails various types of costs and leads to missed economic opportunities that would benefit the whole country. Moreover, since market mechanisms will become more pervasive in the not-so-distant future, it may be good policy to quickly engineer a smooth transition to a more market-friendly environment.

The will to maintain electricity production and distribution as much as possible as a vertical public monopoly also betrays this bias against market mechanisms. It may be a holdover from the socialist era and the view that such critical goods as power should be publicly managed. However, it is more likely a reaction to earlier corruption scandals linked with the subcontracting of power generation to private firms. Despite such scandals, a public monopoly continues to be seen by the public, and by many policymakers, as a guarantee against private providers charging exorbitant prices. But it also provides influential politicians with rent-seeking opportunities, particularly in procurement operations, including with private power providers.

Institutional weaknesses in Tanzania's public sector are also observed at a more basic level. Comparative institutional indicators, opinion surveys among ordinary people and various types of decision makers, and most policymakers converge in considering the under-performance of the civil service as a serious development impediment. The lack of resources, due to both the low level of income per capita and the limited share of recurrent public expenditures devoted to this service, certainly bears some responsibility for such a situation. But the overall setup of the delivery of public services plays a role too. The misalignment of civil servants' incentives, the lack of effective monitoring and evaluation capacity, the high degree of corruption, as well as under-skilled staff and weak management of administrative units and government agencies, have also been regularly denounced. Two Public Service Reform Programmes have been carried out, which were supposed to make recruitment more rigorous and to introduce a dose of performance-based staff management. Improvements were noted, but serious challenges remain, and several observers felt – a few years ago – that some progress had even been reversed (see Mukandala, 2023). The culture of promotion based on seniority or partisan links, rather than merit, of recruitment based on other grounds than capacity, of shirking, of diverting resources, and of taking bribes is said to be still very present today.

All of these failings are difficult to quantify. Measurement of their economic consequences is still more of a challenge, except maybe in a few sectors. Because of the service it delivers and the size of the staff it employs, the education sector has been subject to more quantitative evaluation exercises than any other. There, the picture is far from favourable. On the supply side, teachers have long been castigated for their absenteeism – found to be as high as 31 per cent in a survey conducted in 2014. They are also frequently under-qualified, with a minority of them achieving the required standard in maths or English tests. The result is that even though school enrolment has progressed – though it is not yet fully universal – learning outcomes are poor. Half of Grade 4 children were not able to carry out two-digit subtraction in 2016. Although progress has apparently been made over recent years, a report by the World Bank concluded in 2018 that a 'learning crisis remains in Tanzania'. Even though this kind of quantitative evaluation can hardly be performed in other areas of public sector activity, there is no reason to believe that their outcomes do not suffer from the same deficit of quality.

Results of surveys about the relationship between firms and the public administration, and anecdotal evidence, confirm the foregoing statement. They also suggest that corruption, in the form of giving and accepting bribes, is widespread. It has already been mentioned that Tanzanian political life has been interspersed with increasingly frequent and large corruption scandals, which are probably just the tip of the iceberg. The concern here is about ordinary corruption that is taking place between middle-tier civil servants with some rent-seeking power and firms or citizens. The root cause lies in weak or ill-defined institutional rules. Here, too, the perception is that progress has been made recently thanks to the energetic anti-corruption policy launched by President Magufuli. Judging from the absence of big scandals in recent years, this is probably accurate. At the ordinary level, however, data are not available to know whether Tanzanian society is in the process of moving away from this equilibrium whereby corruption has become a kind of social norm.

Infrastructure development, electricity in particular, is another area where the score of public management is pretty low by all standards, despite its crucial importance for economic development. As mentioned earlier, the production and distribution of electricity are managed by a public monopoly, TANESCO (Tanzania Electric Supply Company). This national company produces around half of the electricity it distributes, the other half being provided by private producers – after, occasionally, resounding corruption scandals relating to the way they were selected. Electricity has long been priced at a rather low level, which has prevented the public company expanding production and meeting demand, a situation that has resulted in economic growth not being as fast as it could have been with a proper power supply. The sector is regulated in parallel by the Ministry of Mining and a regulation agency, EWURA (Energy and Water Utilities Regulatory Authority), in another case of overlapping responsibility. A few years ago, EWURA endorsed an increase in the electricity prices charged by TANESCO, which was long overdue in view of inflation. Recently, the late President Magufuli opposed that increase. Despite the measure being fully justified and EWURA being internationally praised for its impeccable professionalism, its director was sacked. This was possible because in Tanzania the president has the power to singlehandedly appoint and fire the managers of public agencies, including EWURA, but also the Fair Competition Commission, the Central Bank, and the Commissioner Auditor General. The reason invoked for the sacking was that the price increase would hurt poor people and the ensuing social cost would allegedly be worse than stagnating production capacity in the future. This may well have been the opinion of the leadership, whereas the regulators thought differently. The institutional failure here may originate in either of the two following sources: the social criteria applied by the leadership were inadequately specified in its mission order, or the late president took the liberty of ignoring, and even criticising, legal expert opinion.

There thus seems to be a paradox in regard to the type of leadership exerted in Tanzania. Centralisation appears extreme, and probably excessive, in some areas, whereas in areas where it would be most needed it meets obstacles arising from the fragmentation of political power.

G The Institutional Diagnostic

We could continue to review evidence of institutional weaknesses in Tanzania, but the main conclusions to be derived from the thematic studies undertaken as part of our in-depth diagnostic methodology should be clear by now. Summarising as much as possible the points made in the preceding pages, the institutional challenges in Tanzania come under the few general headings shown in the right-hand-side column of the diagnostic table shown in Figure 3.1. In

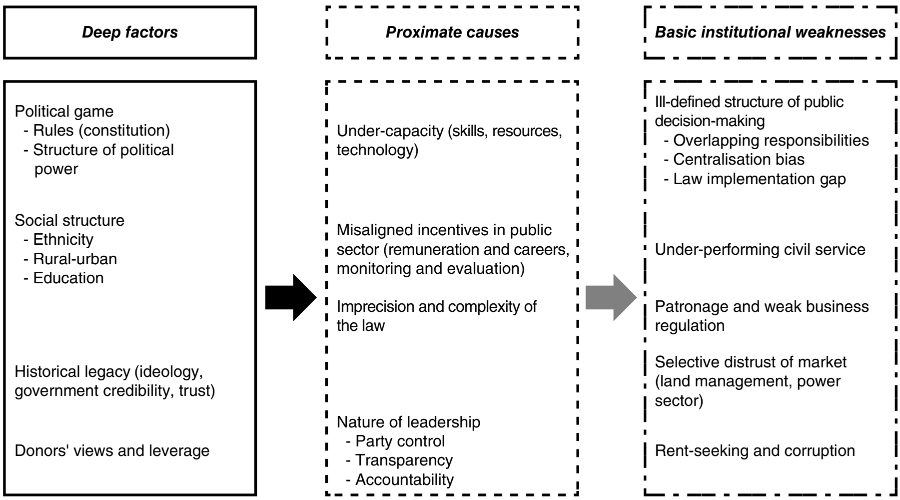

FIGURE 3.1 Institutional diagnostic for Tanzania

reading the table it must be borne in mind that its entries are not independent. For instance, rent seeking and corruption, which are seen to be ubiquitous in Tanzania, are partly caused by the inadequate structure of decision making and the weak regulation of business, as much as they are partly responsible for the under-performance of the civil service, including business regulation. Also, the order of appearance of the various headings is not necessarily related to the severity of the corresponding institutional challenges. As a matter of fact, their mutual dependency prevents us from establishing such a ranking.

Taken together or separately, these institutional weaknesses explain the economic challenges confronting Tanzanian development. For instance, it is easily understood that the difficulty of diversifying exports through appropriate industrial policies is related as much to the uneasy regulation of business, given its relationship with politics, the lack of coordination across administrations, and the poor investment climate created by the under-performance of the civil service. The same factors – and others – may explain the slow productivity gains in agriculture, or the lagging development of infrastructure – at least until the Magufuli administration. This relationship between institutional weaknesses and economic challenges is analysed in more detail in the original Tanzania case study.

Identifying and recording institutional challenges is one thing. However, a diagnostic would not be complete without an analysis of the factors that are responsible for them. The identified weaknesses are the symptoms, while the underlying problem may lie elsewhere. Most causal factors have been alluded to in the preceding pages and are listed in a summary way in the middle column of Figure 3.1. In reading it in connection with the column to its right, it is important to note that items at the same level in the two columns are not necessarily to be associated one to one. The misalignment of incentives in the public sector directly weakens the performance of the civil service, either directly through absenteeism or loose monitoring and evaluation, or indirectly through rent-seeking. At the same time, the poor delivery of public services may result in large part from the lack of skills or resources. Likewise, the nature of the leadership and, most importantly, its control over powerful factions within the party in power is essential to understand the structure of decision making, the extent of rent-seeking and corruption, and the difficulty of regulating business.

This control of the party is partly influenced by voters' support, since political allies will defect if they expect a defeat in the next election. In turn, voters' support depends on the trust inspired by the leadership through the transparency and accountability of its actions. The ability of a leader to oversee the public administration and the whole public decision-making process thus strongly depends on his/her personal capacity to control the political scene and to inspire trust in the population. Needless to say, the nature of the leadership item among the proximate causes of institutional weaknesses also includes the very motivation of the leader. In most preceding points it is implicitly assumed that the leader pursues the common good more than his/her personal interest or that of his/her clique, which indeed seems to have been the case in Tanzania since independence.

Finally, the issue arises of what could be done to combat those proximate causes of the identified institutional weaknesses. Getting more resources to improve the quality of public services, realigning incentives in the public sector, simplifying laws that are felt to be unnecessarily complex, and promoting transparency and accountability through more systematic monitoring and evaluation of the public administration and agencies are obvious measures that would improve the institutional framework of development. They are discussed in some detail in the Tanzania volume. They may raise trade-offs with economic efficiency, however, particularly when they require the collection of additional public resources. Most importantly, they generally generate both winners and losers, at least in the short and medium run, so that their implementation heavily depends on political economy factors. Beyond the proximate causes of the institutional weaknesses, there are deep factors which make the effects of these causes more or less easy to reduce. They appear in the left-hand column of Figure 3.1.

The nature of the political game that is played out in society is the first of these deep factors. On the one hand, the constitution sets the rules, assuming of course it is strictly applied and cannot be easily modified. For instance, it may be the case that it gives too much power to the executive in some areas – for instance, in appointing and suspending people in key positions. On the other hand, in any period there is a structure of political power which evolves only slowly over time – possibly as a function of the pace and structure of economic development – and which makes some reforms possible or impossible. After

Nyerere in Tanzania, the fragmentation of the dominant party (CCM) into several factions made it difficult for the executive not to satisfy the demands of powerful factions since the risk would be the dismantlement of the party and the loss of power. As factions were often associated with business interests that provided them with political, if not monetary, benefits, the state was partly captured by business interests and, in some areas, unable to implement policies that would be detrimental to some of them although beneficial to the country. Modifying this equilibrium involves pure political confrontation between the main actors rather than policy reforms. Magufuli wanted to achieve such a change in the deep factors. It is not clear that he succeeded.

The ethnic structure of the population, including the concentration of big business in non-indigenous hands, or the presence of ethnic cultures and customary laws that sometimes conflict with the statutory law, and the historical legacy in terms of culture, ideology, religion, or trust among citizens, call for the same type of observation. These are deep factors which may affect the proximate causes of institutional weaknesses and may be subject to changes, most notably as a result of development itself, progress in education, or contacts with the rest of the world, but only over a long period.

Among the deep factors, the reference to the role of donors deserves some remarks. In the past, donors have clearly played a huge role in triggering major institutional changes in the way the Tanzanian economy works. This was obviously the case with the SAP, which caused the return to a market economy in the second half of the 1980s, but it has also been the case on several other occasions since then. The weight of donors in pushing reforms derives from the sizeable contribution of aid to the public budget and the domestic economy in general. For instance, the World Bank, which has always pushed for an ambitious decentralisation programme, suspended part of its funding in an effort to impose the decentralisation of the collection of the property tax in 2014 – which was nevertheless re-centralised a few years later. Likewise, donors have cancelled payments several times to protest against big corruption scandals involving government officials, and successfully requested that the latter resign from their positions. Outside these extreme cases, project and programme financing by the World Bank and other donors gives them the opportunity to express their views about the direction in which some institutions like the judiciary or tax collection authorities should be reformed. Even though it is up to the government to decide whether to accept such programmes or not, the funding provided by donors is not a feeble argument.

H Conclusion

The preceding remarks about the deep factors behind the proximate causes of the identified institutional weaknesses may be deemed overly pessimistic. They seem to imply that, at the end of the day, reforming institutions to make them more development-friendly is essentially a matter of politics, or possibly the endogenous consequence of development itself, or the long-run effect of educational progress. This pessimism must be somewhat tempered, though.

First, if big reforms are politically hard to impose, smaller reforms addressing some of the weaknesses detected at a minor level of political sensitivity might be consensual. It is probably in everybody's interest that the educational system is run more effectively, bureaucratic services are competently and honestly delivered, and land management is more efficient. A lot of experimental work has been done in these areas in the economic development literature, which might be a source of inspiration for the design of these reforms. It is not the purpose of the present diagnostic to delve deeper into that kind of detail and it is sufficient to recognise that institutional improvement is now possible in specific sectoral areas.

Second, the Tanzanian economy has done rather well over the last two decades despite the institutional weaknesses uncovered in this in-depth institutional diagnostic exercise. We have stressed the fact that the weaknesses that were identified concerned the acceleration of the present pace of growth and its sustainability in the case of substantial changes in the international context. It cannot be excluded that the deep factors that are found to be obstacles to substantive institutional reforms may be progressively altered with the continuation of present development trends in the coming one or two decades. If this happens, some of the reforms suggested by the diagnostic might become more feasible, especially so if the political elite undertakes its own institutional diagnostic along the lines of the present exercise.

Instead of pessimism, lucidity is the right attitude to adopt in the face of the complex relationship between political economy institutions and development uncovered by the present diagnostic.