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Good Governance and Growth in Africa: What can we learn from Tanzania?

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Popular struggles for social justice in Africa and elsewhere are often couched in terms of demands for better governance. But the new consensus over 'good governance' supported by international financial institutions represents a much narrower programme of reform based on neoclassical economic theory. This agenda focuses on developing governance attributes in Africa that are theoretically supposed to enhance growth by making markets more efficient. Some of these governance capabilities (such as measures to improve government accountability or lower corruption) appear to coincide with goals supported by social justice movements for better governance. But the reasons for supporting these are very different in the official good governance agenda, and the way they are supported can make the achievement of social goals even more difficult. This chapter outlines the theoretical and methodological basis of the good governance agenda and sets out an alternative understanding of the links between growth and governance in Africa.

The good governance reforms are based on a particular way of understanding economic development that draws on a very specific and partial reading of new institutional economics and new political economy. It assumes that political stability and economic development in developing countries can be based on institutions of political representation, accountability and market competition. In making these assumptions it ignores not only much of the history of economic, political and social transformations through which advanced societies have emerged, it also reads economic and political theory very selectively. The danger is that in confusing desirable outcomes (such as low corruption, a good rule of law and accountability) with the preconditions that are required to achieve political stability and economic growth in poor countries, the good governance agenda can in many contexts result in lost opportunities for meaningful reform or even worse. The first section examines some of these theoretical issues and the second section examines the implementation of the good governance agenda in Tanzania and some of its effects.

1. Good governance: Some Theoretical Issues

The roots of the modern 'good governance' agenda lie in theoretical developments within the new institutional economics developed by North and Thomas (1973), North (1990), Olson (1982; 1997; 2000), Williamson (1985), Milgrom and Roberts (1992) and Bates (1984; 1989; 2001). These models established the importance of stable property rights for the functioning of a market economy. Good governance also drew on theories of rents and rent seeking that date back to the work of Krueger (1974), Posner (1975) and Bhagwati (1982). These theories claimed subsidies, market

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restrictions and other sources of 'rents' or politically created incomes were highly damaging for market economies. And finally, it drew on new political economy theories that supported democracies on the grounds that they helped to establish property rights and reduced rent seeking North (1990), Olson (2000). The theoretical argument was that democratic accountability reduced the possibility of corruption and rent seeking, this in turn enabled a rule of law and stable property rights to be enforced, and these were essential for reducing transaction costs in markets, thereby allowing economic growth (Khan 2004, 2006b, 2007).

These theoretical arguments were backed up by numerous econometric studies that purported to show a positive relationship between improvements in good governance and various measures of economic performance, in particular economic growth. While governance quality is difficult to measure directly, the new paradigm has been helped by the development of proxy measures for complex governance capabilities such as the rule of law and the stability of property rights. These proxies involve both 'objective' measures such as counting the number of corruption cases brought to court as well as 'subjective' measures that often use survey data from credit risk agencies who interview business people about their perceptions and experience of different aspects of governance.

The best known of these data sets are the World Wide Governance Indicators (WGI) produced by the World Bank but many data sets are now available. In terms of these measures, most countries in Africa perform badly on all of the key areas of concern of the good governance agenda. The WGI indicators place the vast majority of African countries in the bottom 50^{th} percentile of their six dimensions of governance meaning that Africa performs worse than any other region, except the former Soviet Union (World Bank 2008). In the Corruption Perceptions Index (CPI) produced by Transparency International 30 out of the 47 countries where corruption was measured in Africa were found to have rampant corruption while only three, Botswana, Cape Verde and Mauritius, scored above the global average for corruption (Transparency International 2008).

In many ways it has become difficult to confront the argument for the good governance agenda in Africa. This is partly because it has attained the status of 'conventional wisdom' in much of the discourse on development and has been espoused by African leaders, reflected in commitments in NEPAD and the AU, as well as being central to donor conditionality (Mkapa 2008). More importantly, it taps into the popular aspirations of millions across the continent who face the burden of poor governance on a daily basis and who want their leaders to be held to account through genuinely democratic political systems. Nevertheless, despite the proliferation of quantitative studies and policy conditionality based on its conclusions, serious questions have been raised about the validity of the good governance agenda, both from within the mainstream and from heterodox economic approaches.

A major area of dispute concerns the empirical evidence, particularly the econometric models, used to support the good governance agenda. A basic problem is that the econometric approaches cannot definitively show that good governance is required for growth rather than the reverse that growth and rising levels of per capita income are necessary for sustainable improvements in good governance (Khan 2004). In particular, case studies of successful development in poor countries show that none of these countries achieved significant improvements in good governance *before* they began their economic transformations. Think of South Korea and Taiwan in the 1960s, Thailand and Malaysia in the 1980s, China in the 1990s amongst many other examples. The relationships found in many econometric studies between good governance and growth could therefore be spurious, caused by measurement error, reverse causation, poor model specification and data mining by dedicated researchers looking for combinations of countries and periods which support their theories. In addition, econometric studies that question these results are typically ignored.

For instance, Sachs et al. (2004) provide an econometric analysis that standardizes the measurement of governance by level of income and finds that, in fact, many African countries are actually well governed according to their level of income. And while the Sachs et al. study finds a weak relationship between improvements in good governance and growth when all countries are looked at together, African countries have a more significant negative dummy. This can be interpreted in two ways. Either governance does not matter much for African countries, which is the interpretation that the authors support. Alternatively, the governance capabilities that the good governance approach focuses on may be less important for developing countries and the governance weaknesses that African countries suffer from may be very different from the ones identified in the good governance approach. The second possibility is supported by historical analyses of the governance capabilities that allowed a few developing countries to emerge from poverty to prosperity in the last fifty years.

Heterodox economics (and some developments within mainstream neoclassical economics) provide the theoretical framework for explaining the importance of these alternative governance capabilities for achieving prosperity and therefore eventually achieving good governance characteristics. In the context of significant market failures in developing countries, it is not surprising that growth has depended on state capabilities of addressing market failures (Amsden 1989; Wade 1990). Interventions to correct market failures inevitably create rents, because rents can be defined as incomes that are directly the result of state interventions (Khan 2000b, 2000a). Thus, far from requiring the removal of all rents and rent seeking, success in development may require state capabilities to manage rents and rent seeking such that growth-enhancing rents could be managed and growth-reducing rents could be removed.

This heterodox approach has focused on the critical importance of rents and interventions that successful developing countries have used to overcome market failures limiting the acquisition of technology and the organization of learning-by-doing in productive activities. Growth in developing countries requires catching up through the acquisition of new technologies and learning to use these new technologies rapidly. Learning how to use modern technologies is an expensive process that entails extra costs until higher levels of productivity are achieved. In developing countries the weakness of markets and in particular capital markets means that these processes face significant market failures and success requires state action to facilitate technology acquisition and indeed to overcome other significant market failures (Khan 2007, 2008). Addressing these problems requires significant governance capacities in managing rents but these capabilities are typically entirely ignored in the good governance approach.

The problem with intervention and rent-creation is that some rent seeking is inevitable. In developing countries much of this rent seeking may be illegal, and take the form of different types of corruption. Some types of corruption impose costs but do not significantly distort the intervention while other types of corruption can distort the implementation of the intervention the extent that potentially beneficial effects are wiped out or even reversed. Growth-enhancing governance therefore requires institutional and political capabilities for limiting the damaging variants of corruption even if overall corruption cannot be significantly reduced in the short to medium term (Khan 2006a). Most of the examples of successful rent creation of this sort come from Asia however this type of rent creation was also important in many African development plans prior to the liberalisation drive of the 1980s (Mkandawire 2001). However, in many cases across Africa, state-created rents served no purpose other than to create incomes for state functionaries and politicians. Nevertheless, the drive to wipe out all state created rents has reduced the institutional and political capacity of many African countries to deal with significant market failures (Khan and Gray 2006).

However, corruption in developing countries is not just related to potentially growth-enhancing rents. If that was the only problem, it would be possible to address this problem by gradually legalizing the rent seeking associated with these rents, in much the same way as the rent seeking associated with many socially desirable rents in advanced is legalized through the political process. The more fundamental problem is that many aspects of poor governance in developing countries are linked to interventions and rents that are potentially necessary for growth or political stability but which cannot be easily legalized. Two important types of such interventions are the ‘interventions’ that manage non-market asset allocations and that managed political stability in developing countries (Khan 2004, 2006a, 2006b).

Non-market asset transfers are sometimes described as *primitive accumulation* and this process has implications that are very similar to conventional state-created rents. Primitive accumulation in low income countries is driven by the fact that many critical assets, in particular land, are in low productivity traditional sectors and as a result of their low productivity, their owners do not have the resources to pay for the definition and protection of clear property rights. In the course of economic transformation, the transactions that can re-allocate resources to emerging productive sectors are often not possible through conventional market processes precisely because property titles are missing or badly defined or heavily contested. Much of the significant asset re-allocations in developing countries happen through political processes rather than through market ones. These non-market processes can be legal (such as land reform), quasi legal (political influence guiding market transfers) or entirely illegal (asset grabbing). But clearly quite apart from the avarice of the politically powerful, there are structural reasons why market-based asset transfers cannot be relied upon in developing countries. Once again, critical governance capabilities are required to ensure that these non-market transfers are socially beneficial and not socially damaging. In contrast, the good governance approach urges developing countries to achieve the property right stability that is impossible to achieve at early stages of development.

Primitive accumulation in African countries manifests itself in various ways including land policies, the framework of regulation surrounding natural resource extraction, compulsory purchase orders and appropriations undertaken as part of privatisation policies. In some cases even forms of taxation, subsidies and price fixing assist forms of primitive accumulation as they accelerate the transfer of assets to particular classes or groups. Historical evidence suggests that in high growth developers property rights were *not* stable across the board but rather assets were systematically transferred to productive investors while in less dynamic developers, assets remained in the hands of unproductive expropriators (Qian; 2003, Brenner; 1985). The governance policy question for many Africa countries is why primitive accumulation often remains stuck in cycles of predation without the emergence of a more productive asset structure.

The process of political stabilisation also involves significant transfers in all countries and these are rents by definition. In most rich countries political stabilisation is primarily achieved through redistribution of fiscal resources through open transfers discussed in Khan (2005). Given the limited scope for fiscal transfers and the lack of political legitimacy of many of the groups that pose the greatest threat to political stability in low income countries, political stabilisation typically cannot be achieved solely through the creation of legal rents. Instead, political stability in developing countries depends on off-budget transfers and non-legal rent creation for critical clients and constituencies through the patron-client networks operated by political parties and groups in power. The state's capacity to manage political stabilisation in these ways is clearly critical for economic growth, and the types of rents that are created also have an effect on growth because some types of rents can be very damaging while others are much less so. It appears that political rent creation is very damaging in many African countries, descending in some cases to conditions of civil war and predation by competing groups of warlords.

The assumption of the good governance agenda is that problems of political stabilization can be solved through democratization and the attempt to manage political stability through fiscal transfers as in advanced countries. This prescription is not very useful because the economic basis of such a fiscal strategy does not yet exist. Developing countries, including African countries can only tax a much smaller share of their GDP because of the small share of modern activities, and their per capita incomes are also much lower. Thus, clientelism in Africa is not special at all but rather a feature of all developing countries. Unfortunately, a number of authors have pointed to specific African cultural factors or the absence of democracy in Africa to explain the prevalence of patron-client politics and 'neo-patrimonialism' (Hyden and Williams 1994; Médard 2002). Rather, while patron-client politics are common to *all* developing countries, the success of particular patron-client structures in achieving stability and growth differs significantly.

The problems of political stabilization in developing countries therefore have to be addressed through other types of governance capabilities that draw on the experience of successful countries in the developing world. Whether democratic or not, successful developing countries have had high levels of political corruption and political stabilization through patron-client networks. Adapting their governance capabilities to the conditions of specific African countries is a very different task from the exclusive focus on democratization and accountability that the good governance approach espouses.

Weaknesses in growth-enhancing governance in Africa may have more to do with state fragmentation. The institutional fragmentation of the state can result in predatory behaviour because different parts of the state can behave in uncoordinated ways, thereby resulting in short term predatory behaviour. The historical reasons for state fragmentation in Africa have been studied by Mamdani (1996) who argues that different patterns of direct and indirect rule by colonial governments established fragmented and bifurcated states in Africa. The problem of institutional fragmentation cannot however be solved by simply changing formal organisational structures of the state but is more likely to require fundamental changes in the political configurations underpinning the state.

The political fragmentation of the powerful classes and groups underpinning the state is often an important underlying cause of persistent institutional fragmentation of the state. Political fragmentation in developing countries frequently takes the form of multiple well-organized factions each seeking to gain power and rents for itself but failing to achieve enough stability to take a long-term view. As a result political competition can result in the creation of many damaging rents in the process of primitive accumulation and political stabilization. Somewhat different political organizations that can achieve greater political stability either through the inclusion of the most powerful groups within a single party or the emergence of a small number of equally powerful groups that have a credible prospect of cycling in and out of power. In these cases, political stabilization and primitive accumulation can lead to much more developmental rents. Changing the political organization of factions in these ways fall well outside the remit of most good governance type reforms. However differences in governance capabilities in these areas are probably much more important in explaining the differential performance of developing countries than good governance capabilities which are missing in virtually all developing countries. The next section explores some of these issues in the context of the good governance agenda in Tanzania.

2. Good governance and Tanzania

After 20 years of economic and political reforms, including market liberalisation, the introduction of multiparty elections and extensive transparency and accountability reforms, Tanzania is often described as one of the more successful examples of good governance reforms in Africa (Utz 2007). At the start of the reform process Tanzania was identified as having poor governance across the whole spectrum of state activities (World Bank 2001) and the *Presidential Inquiry into Corruption* identified widespread corruption at all levels of government (United Republic of Tanzania 1996). Major efforts were made to reduce rent seeking within the realm of public finance. Success in this area has been rewarded with high levels of foreign aid which have been increasingly channelled as direct budget support through the government’s budgetary system (United Republic of Tanzania 2005). A ring fenced and very generous fiscal incentive structure was introduced to attract foreign investment into natural resource extraction which triggered a massive inflow of FDI into the sector, making Tanzania the fifth largest recipient of FDI on the continent.

In more recent years, some progress also seems to have been made in addressing cases of grand corruption involving senior politicians and business people. In 2007 the Prime Minister resigned over allegations of corruption over a contract for private power provision and the governor of the central bank resigned over allegations of the theft of billions of shillings of government funds from the Bank of Tanzania in 2006. Cases were also brought to court against two former finance ministers and the ex-permanent secretary of the ministry of finance over abuses of public office. Overall, improvements in governance are credited as part of the reason for Tanzania's improving rates of GDP growth, from an average 2% during the period from 1985 to 1995 to over 5% for the period from 1996 to 2005.

The story of Tanzania's success with good governance reforms is however more complicated than this picture would suggest. While certain areas of poor governance appear to have been effectively addressed through market promoting reforms and by enhancing the transparency and accountability of the state, there are critical areas of governance in Tanzania that have either not been affected or that fall outside the good governance agenda completely. These critical areas include land management and industrial policy and natural resource management. The reason for this differentiated performance can be traced both to the nature of policy advice but also to the institutional and political configuration of the state.

Good Governance Successes

Probably the most successful areas of good governance reform in Tanzania have been in public finances. Initially reforms of public finance focussed on neo-liberal macroeconomic stabilisation with cuts in public expenditure to reduce inflation, extensive privatisation and the 'rationalisation' of the tax system to promote private sector growth and foreign investment. Drastic cuts in government spending were initiated and government expenditures as a percentage of GDP fell from 27% in 1992 to 11% by 1998. The inflation rate was brought down from 32.4% in 1986 to 14.4% by 1998 (Bigsten and Danielson 2001). From the mid 1990s these stabilisation reforms were accompanied by good governance reforms that sought to address the pervasive corruption, lack of transparency and accountability, inefficient market distortions and endemic rent seeking affecting public finances (United Republic of Tanzania 1996; World Bank 2001; United Republic of Tanzania 2003, 2004).

The budget process was seen to be highly politicized and numerous cases of corruption both on the revenue and expenditure side of the budget were documented by the *Presidential Inquiry into Corruption* (United Republic of Tanzania 1996; World Bank 2001). The cases identified involved bureaucratic and political corruption and even cases of outright predation and theft. On the expenditure side of the budget, there appeared to be significant 'off budget' expenditures not accounted for to the public or covered in the official budget document (World Bank 2001). Off budget expenditures are notoriously difficult to identify given their covert nature but in Tanzania they may have included loans to the ruling party, hidden government projects and aid funded projects that were not included in the budget estimates.

These weaknesses were identified as a major constraint on Tanzania's development objectives (World Bank 2001) and public expenditure reforms featured increasingly in donor conditionality. This was also driven by the shift amongst Tanzania's largest donors in aid modality away from project based finance to direct (or 'general') budget support (United Republic of Tanzania 2005). The grant of aid money into the general budget allowed greater aid flows to be directed to African countries like Tanzania, but to make this politically acceptable to taxpayers in advanced countries providing the aid, a lot of effort was put into aligning developing country budget priorities to development commitments contained in the IMF/World Bank approved Poverty Reduction Strategy. An array of complementary reform programmes including the Civil Service Reform Programme, the Public Financial Management Reform Programme, the Public Expenditure Review, Legal Sector Reform Programme and the Accountability, Transparency and Integrity Programme were introduced. These led to extensive institutional and organisational changes in the ways that public finances operated.

In 1996 major institutional reforms of the revenue authority were introduced. The aims of the reform were to remove political influence, raise salaries and provide greater transparency and accountability of tax officials. Control of the revenue authority was removed from the Ministry of Finance. The Tanzania Revenue Authority (TRA) was established as an independent institution in order to insulate the TRA from political pressure and to move it outside the control of the civil service. Existing staff were dismissed and though most were subsequently re-employed, this was on different terms with more attractive wages and easier processes for dismissal. The aim was to raise the opportunity cost of corruption for bureaucrats. The tax exemption regime also underwent significant reforms to reduce the overall number of exemptions and to increase transparency in the exemption process. Subsequently, there was a significant fall in exemptions granted directly to private individuals and companies from around 35% of total exemptions in 1998 to around 11% in 2003. But there has been a sharp increase in the number of exemptions granted through the Tanzania Investment Centre from around 12% in 1998 to 35% in 2003 (Levin 2005).

Major reforms of the public expenditure management system included the introduction of the cash budget, which limited payments to available cash on a monthly basis, and the introduction of a centralised computerized payments system through the Integrated Financial Management System (IFMS). Transparency and accountability were strengthened with the development of a medium-term expenditure framework (MTEF) and the establishment of the Public Expenditure Review (PER) with government and donor participation. An expenditure tracking system was put in place to reduce leakages at service delivery level. Further, efforts were made to put a greater proportion of the previously ‘off budget’ aid financed projects through the official system (United Republic of Tanzania 2001). Annual reviews by the Controller and Auditor General pointed to significant improvement in the financial management of the budget, with fewer audit queries over time (United Republic of Tanzania 2007). Successive Public Expenditure Reviews have also reported a fall in off budget expenditures.

The initial outcome of the revenue reforms was a decline in corruption and an increase in reported revenue from 11% of GDP in 1995/96 to more than 12% in 1996/97. However in three subsequent years tax revenue declined as a percentage of GDP and there were reports of corruption increasing again within the revenue authority (Fjeldstad 2002). While tax revenues as a percentage of GDP started to rise again after 2000, the tax to GDP ratio remained low compared to other African countries with a similar economic structure. Cross-country analyses of tax-revenue performance suggest that Tanzania should be capable of generating tax-revenue of around 18% of GDP (Bevan 2001) rather than the 11 – 13% that has been the norm since the reforms (Levin 2005). Tax buoyancy has also remained low, suggesting that tax evasion and discretionary exemptions were still having a major impact on reducing tax revenue (Bigsten and Danielson 2001). Political scandals concerning exemptions have also continued through the reform period. Some of the forms of rent seeking within the revenue system therefore appear to be much more difficult to root out with these types of governance reforms.

Similarly, while expenditure reforms have undoubtedly reduced some forms of political rent seeking in the budget, there are still some areas that remain beyond the influence of the good governance agenda. For example, some areas of government activity such as Defence, Police, the Prime Minister's office and the State House have their own budgeting systems and are not on-line within the IFMS system. Further, there have been a number of examples of large and in some cases dubious purchases outside the official budgetary process including the purchase of a national air traffic control system from the British company BAE, the construction of a national stadium and new parliamentary buildings that were not subject to the official government-donor scrutiny process of the PER. Thus, the claim that all off-budget expenditures have been eradicated requires further investigation.

Nevertheless, rent seeking in public finance appears to have been significantly modified by the governance reform agenda. There are however, other areas of rent seeking that have not been so amenable to these sorts of reforms. The focus on removing rents may have weakened the chances of building up capacity to manage other forms of rent processes in areas critical to Tanzania's growth prospects. Further, Tanzania's capacities to reduce certain forms of rent seeking are not simply about transparency and accountability but also relate to underlying political features of Tanzania. The underlying political drivers of rent seeking are important to understand in order to identify alternative strategies of growth-enhancing governance reform.

Perhaps the most important area where rent reduction strategies appear to have had adverse effects on developing the capacity to manage vital rent processes is in technology acquisition, in particular in manufacturing. As in most developing countries, trade policy has become the central focus of industrialization. Tanzanian manufacturing suffered severe disinvestment for most of the period of liberalisation but started to pick up from the late 1990s. However this subsequent growth was overwhelmingly in low value added manufacturing. Most of the previous tools of industrial policy to encourage diversification and productivity growth were jettisoned as cumulative reforms have restricted the role of the state to provide at best a much narrower range of trade related incentives to the manufacturing sector. The major initiative in this area was the introduction of Economic Processing Zones (EPZs) in 2002 and the launch of the Mini-Tiger Plan in December 2004.

The EPZs initiative suffered from a number of critical limitations. This was partly because while the legal framework for the provision of incentives was in place, the state was not able to ensure the quality and reliability of services available in the EPZs. In 2005, of the three EPZs established in Dar es Salaam, only one had sufficient infrastructure. Basic facilities such as electricity and roads were lacking in the other two (World Bank 2005). Unreliable power and water supplies and undependable infrastructure, expensive administration costs and high raw material costs were listed as reasons for the lack of investment in these EPZs (World Bank 2005). The central state was clearly aware of these deficiencies but lacked the political capability to induce the appropriate agencies of the state to provide the required services.

Another area where the state appears to lack essential capabilities for managing rent processes is in the vital area of natural resources. Natural resources potentially generate significant rents and African states need to develop capabilities for negotiating a fair share of these rents for the national economy and for managing the revenues coming from natural resources for long-term economic development. While the Tanzanian investment framework for natural resources offered relatively secure property rights and low taxes and did attract a large inflow of FDI into the sector, there are serious concerns that the state was too generous in its terms and agreed to a very low share of the rents for the domestic economy (Butler 2004). While government revenues have increased from mining, they are still relatively low at around 3% of GDP and significantly behind the target of 10% of GDP. In 2006 the Government launched a review of the terms offered to mining companies. Subsequently there were a number of ‘goodwill’ side payments by the mining companies to the Government (Mines and Communities 2007) and in March 2007 the review concluded that there was no basis for a change in the terms applicable to foreign investors in the mining sector.

There has also been little progress on the generation of backward and forward linkages from the mining sector, despite the intentions expressed in the Mining Policy. The aim was to expand the lapidary industry to encourage higher value added activities. The policy faced critical problems in terms of implementation. The intention to impose a tax on the export of uncut Tanzanite was not seen through. Previous initiatives to promote lapidary activities such as the 1996 government regulation which sought to require all foreign dealers to set up lapidary operations also failed. Further, the intention to grant EPZ status to lapidary industries has not received the required practical support from the Government (Lange 2006).

Another crucial area where governance capabilities need to be developed is for managing the rents associated with land policy. The Government introduced a legal framework for land which attempted to address the dual challenges of securing social justice for small holders and traditional land owners while creating an efficient market for land. These competing pressures meant that the implementation of the new land policy has been quite confused and in reality ‘land reform’ has often been occurring through the actions of private individuals engaging in illegal or quasi-legal non-market transfers with local political support, but without the direct oversight or planning of the central state. These types of transfers are clearly a variant of primitive accumulation. Over the period of liberalisation local level struggles over land have become more important as accumulation strategies have shifted downwards as the economic activities of the central state have been reduced (Gibbon 1995; Kelsall 2000).

Thus, village level elites, working with individual central state politicians have often used the new laws which strengthen Village Council control over community based lands to transfer property rights to new investors. The lack of oversight means that these transfers have not necessarily been in line with Tanzania’s development plans. As we described earlier, there are good theoretical reasons to expect these land transfers at early stages of development to have a large non-market element. The real question for countries like Tanzania is whether these transfers are likely to lead to the eventual emergence of productive sectors and the social cost of achieving such a transformation.

The Political Context

The apparent capacity of the Tanzanian state to control or limit some forms of rents while struggling to manage other rent processes relates both to the policy imperatives it has worked under, but also point to underlying institutional and political opportunities and challenges for the state. One of the most important features about Tanzania's political economy, which marks it out from many other African countries, is the relatively high degree of institutional and political coordination within the state. This is largely related to the history of the ruling political party, the CCM, which came to power as the Tanganyika National Union (TANU) after an anti-colonial struggle that swept it into office in 1961. In 1963 President Nyerere announced that Tanzania would become a one party state under TANU. The control of the party over the state was achieved through three main methods. First, the party was institutionalized from the central National Executive Committee (NEC) down to rural communities with the establishment of 10-cell party units at the village level. Second the party penetrated the state bureaucracy so that the entire civil service was in effect at the direction of the party (Goulbourne 1979). Since the introduction of multi-party politics in 1992 there has been a formal de-linking of the party from the state administration however in practice the two are still very much intertwined (Kelsall 2003). The third reason was the fact that other institutions which could have become oppositional centres of power, such as co-operatives and the army were integrated into the party.

The apparent party strength also relates to the fact that opposition from CCM factions within parliament was muted due to the punitive mechanisms available to the party whip (Mmuya 1998) and the fact that most of the important decisions on rents occurred outside parliamentary debate. Methods of elite control within the party were very strong. The NEC and the Central Committee took on the role of controlling the elite within the party. The Central Committee controlled party patronage through monitoring the activities of members and recommending appointments and removals of party officers or even expulsion of members (Van Cranenburg 1990; Skinlo 2007). Tight elite control even at the very top is evident from the fact that there have been quite regular culls of senior members of cabinet and the party if they were found to be engaged in corruption during the liberalisation period.

The advent of multiparty elections has not threatened the hegemonic position of the CCM within the state. In fact, CCM has increased its control in each round of multi-party elections. Over time, the opposition parties have suffered from a lack of funding and internal divisions and have received a lower percentage of the vote in each subsequent national election. The CCM has increased its parliamentary representation from 78% in the first multiparty elections in 1995 to 87.3% in 2005. The well developed and inclusive institutional structures of the CCM party have been able to largely contain factional competition. This gives the state a degree of central political control that has allowed it to pursue rent reduction in certain areas, without threatening the political position of the CCM party. Reducing rent seeking in public finances also presented a large payoff to the central state in terms of increased aid flows directly through the budget which made it worth while for the state to pursue this agenda.

Beyond these institutional reasons there are also reasons related to Tanzania's wider social and economic structure. The low level of rural economic differentiation during the socialist Ujamaa period and the lack of industrialisation led to more muted factional competition as the rural elite and intermediate classes that often play the role of political entrepreneurs were less strong in Tanzania. In a longer historical perspective, the comparatively short period of struggle for independence and its predominantly peaceful nature circumscribed the legacy of political organisation in Tanzania. The more subdued level of political organisation outside the structures of the CCM is also part of the reason why opposition parties have had very little impact on the strength of the CCM within the state. Within the CCM this also means that power within the party is more diffuse and no one faction can raise enough political support to completely dominate other factions within the party.

The diffuse power structure within the CCM is one of the reasons why power within the party seems to be centralized in Tanzania, as there appear to be few solid blocks of opposition within the party. However, while factions are weak, the centre seems to lack power when it comes to overruling internal factions that coalesce to protect other forms of rent and transfers. This is evident from some of the cases of grand corruption that have come to light where the top leadership was not able to override networks within the party who supported deals that were manifestly bad for the interests of the country and indeed for the leadership (Khan and Gray 2006).

The capacity of the state to manage rents related to land and industrial policy are complicated by the historically difficult relationship between the CCM and the business sector. Prior to independence the party was led by quite a narrow section of intermediate class groups who entrenched their power through the party-state during the Ujamaa socialist period (Shivji 1976). During this period, the party officially disavowed capitalist development in its pursuit for a more egalitarian socialist economy. The private business sector which was dominated by foreign capitalists and the Asian-Tanzanian commercial class was effectively cut out of the extensive rents created during Ujamaa while the nascent rural capitalist class was suppressed through the policy of villagisation and the interdiction of independent co-operatives.

While the state's attitude to the private sector has changed dramatically during the liberalisation period, the domestic African capitalist class is still very small and many of the new growth sectors, such as mining, are dominated by foreign capital. The links between the private sector and the Party are becoming increasingly evident (Kelsall 2003) yet the state's management of rents and transfers to support Tanzania's domestic businesses remain politically complicated. Further, while the state appears to have been successful in terms of offering certain forms of subsidies and incentives to attract foreign capital, this has mainly remained in profitable areas such as natural resources and some low value added manufacturing. To bring about a shift into more productive activities would require the state to engage in a more complex system of encouragement and disciplining of domestic capitalists. These governance capabilities are arguably vital for long-term economic development, but the political space for it has to be created internally and is likely to be opposed by powerful donors.

3. Conclusions

Good governance reforms are based on theoretical propositions that are unrealistic for most if not all developing countries. However, some developing countries like Tanzania have done well with good governance reforms for a while because reforms of public finances allowed donors to pump significantly greater aid flows through national budgets. In addition, more transparent protection for foreign investors allowed greater FDI in natural resources. The question though is whether domestic productive capacities are being significantly enhanced. The implementation of good governance reforms was supposed to make the economy as a whole more efficient, benefiting all sectors through greater market efficiency. There is little evidence of such a broad based economic takeoff in countries like Tanzania. The development of a domestic African capitalism with local entrepreneurs who are able to compete in global markets is not much in evidence.

The historical evidence of sustained development and the analysis of heterodox economics suggest there are good reasons why markets by themselves are unlikely to result in the development of national capitalism. This is because markets in developing countries face significant market failures. Domestic capitalists with limited initial capabilities are unlikely to be able to access capital markets to finance relatively long periods of learning, or to acquire the assets and land they require in relatively inefficient asset markets. Addressing these market failures requires high levels of governance capabilities of a very different type. We have described these as growth-enhancing governance capabilities. There is no blueprint for these capabilities because the appropriate capabilities depend on the specific market failures that particular countries face, but also on the political constraints that determine the types of interventions that are likely to work in different contexts.

Ironically, Tanzania has a relatively favourable political endowment because of its relatively long history of nation-building and party-building. Despite this, the internal factions of the ruling party appear to be diffuse and difficult to discipline. The development of significant rent management capabilities would require improved capabilities to discipline internal political factions so that the allocation of some significant rents can be made on explicitly developmental criteria to address market failures. This in turn requires a very different discourse about governance priorities so that the political consensus could slowly be constructed to allow some of these growth-enhancing governance capabilities to be strengthened. The real danger of the good governance agenda is that the space for these important governance discussions has been significantly reduced by defining good governance as *the* governance reform agenda for developing countries.

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