INTEGRITY ENVIRONMENT AND 
INVESTMENT PROMOTION 
“The Case of Tanzania”


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TABLE OF CONTENTS

Contents

1.0 Introduction

2.0 Recent International Developments

3.0 Integrity and Good Governance – The Current Situation
   3.1 Background
   3.2 Integrity and the Fight Against Corruption
   3.3 Integrity Environment and Investment Promotion
   3.4 Recent Reforms and FDI Inflows
   3.5 Obstacles to Integrity Environment and Good Governance

4.0 The Need for Corporate Governance

5.0 The Way Forward
ABBREVIATIONS

APRM  – African Peer Review Mechanism
BEST  – Business Environment Strengthening Programme
BOT   – Bank of Tanzania
DSE   – Dar es Salaam Stock Exchange
ECA   – Economic Commission for Africa
FDI   – Foreign Direct Investment
GDP   – Gross Domestic Product
MDGs  – Millennium Development Goals
NACSAP – National Anti-Corruption Strategy and Action Plans
NBS   – National Bureau of Statistics
NEPAD – New Partnership for Africa’s Development
NFGG  – National Framework on Good Governance
OECD  – Organisation for Economic Co-operation and Development
PCB   – Prevention of Corruption Bureau
PSRC  – Presidential Parastatal Sector Reform Commission
PSRP  – Public Sector Reform Programme
TIC   – Tanzania Investment Centre
TNBC  – Tanzania National Business Council
UNCTAD – United Nations Conference on Trade and Development
URT   – United Republic of Tanzania
Box and Figures

Box 3.1 Summary of the Interlinked Components of the BEST Programme

Figure 3.1 FDI stocks and Flows Trend in Tanzania (1990 – 2004)

Figure 3.2 Investors’ Perception on Political and Governance Factors
1.0 INTRODUCTION

An environment of integrity is essential for private sector development, promotion of foreign investments and economic growth. Its requirements include building an anticorruption environment, provision of high quality government services, predictability and consistency of government procedures and regulations, and overall transparency of the system.

Increasingly, many African countries are now realising that capable and responsible governments are a prerequisite for development.

All over, initiatives are underway to reduce bureaucratic delays and uncertainties in servicing the business sector and in ensuring integrity, rule of law, transparency and regulatory consistency to all.

Maintaining high level of Integrity and transparency correlates with creating a favourable environment for private sector growth and Investment. If African countries are to meet the Millennium Development Goals (MDGs) both; governments and businesses need to share responsibility in any drive to create a eliminate corruption free in integrity environment that will automatically improve investment environment levels and quality.

The reverse is true. Corruption for instance, can and does sabotage national development. Corruption leads to a loss of government legitimacy and of public trust and support. It inhibits the functioning of the market and distorts the allocation and use of resources, hence hampering trade and deterring investment.
Corruption is often a collusive arrangement between some officials in government and individuals in business who have little or no concern for the social, economic, environmental, political or human consequences of their actions. Such decisions are taken not for the public benefit but merely to serve personal interests.

Many countries in this era of democracy and transparency have intensified efforts at deepening reforms in service delivery institutions such as the judiciary, parliament, local government, public service management, etc. Progress has been achieved in many African countries though the journey ahead is long and difficult.

Lack of an integrity environment impedes FDI flows too. Many African countries are pursuing market oriented economic policies, including divestiture of public enterprises, and creating an environment more conducive for business. This includes improving efficiency in production and service delivery. Yet the business environment overall is not yet fully conducive for FDI inflows.

As per Transparent International report 2004 as well as the findings by the Economic Commission for Africa (ECA) study on governance, most of African countries performed badly in efforts to control corruption and creating integrity environment.

There is a clear need to create and nurture an integrity environment which will prevent corruption and create a better environment for private sector development and investment promotion.
2.0 RECENT INTERNATIONAL DEVELOPMENTS

The International community recognising the detrimental effects of corruption on development, has endorsed the UN Convention against Corruption. The Convention enhances cooperation and mutual legal assistance, particularly regarding return of stolen assets. As more and more countries ratify the Convention, corrupt practices in a foreign country are no longer beyond the reach of domestic jurisdictions.

For Africa the adoption of African Union Convention on Prevention and Combating Corruption and Related Offences was a most significant development. However, as reported by Transparency International, the major weakness of the Convention is that it permits any signatory to opt out of some or all provisions!

Under the NEPAD/African Union Programme, 24 African countries representing about 75% of the continent’s population have agreed to take part in peer reviews of their governance performance – African Peer Review Mechanism (APRM). Countries that endorsed APRM must conform to agreed values in four areas including, democracy and political governance, economic governance, corporate governance and socio-economic development. Tanzania is amongst African countries that endorsed the APRM.

Nevertheless the success of creating an integrity environment and fight against corruption depends on commitment and political will to implement change.
3.0 INTEGRITY AND GOOD GOVERNANCE - THE CURRENT SITUATION (STATUS AND CONSTRAINTS) IN TANZANIA

"We have persisted in our resolute struggle against corruption, including through rolling out plans to combat corruption; the establishment of anti-corruption bureaus at the district level; and enhanced accountability for resources transferred from the Central Government to the district level. Tanzania's efforts in fighting corruption are starting to win international recognition."

(His Excellency President Benjamin W. Mkapa addressing the 4th International Investors' Round Table (IRT) meeting at the Golden Tulip Hotel, 23rd November 2004)

3.1 Background

Tanzania like many other Sub-Saharan Africa countries achieved its independence with a severely underdeveloped economy and extremely limited infrastructure. However, Tanzania has made concerted efforts to improve its economy, raise living standard of its people and create a conducive environment for private sector development & investment.

Since early 1980s, governments of developing countries have been supporting and implementing strategies of encouraging competitive free markets, privatisation of state owned enterprises (parastatals), move from closed (no trade) to open (trading) economies and opening up the domestic economy through free trade and attracting foreign direct investment. This was done as a way of recognising the lead role that private sector can play in economic development.

The private sector expressed concern that the system of governance in the region is still tinged with corrupt practices. According to the Transparency International's annual Corruption Perception Index (CPI) for 2003, out of the 133 countries that were surveyed, the East African countries of
Kenya, Uganda and Tanzania ranked relatively high in levels of corruption. The rankings were 122 for Kenya (with a CPI score of 1.9 out of 10), 113 for Uganda (with a CPI score of 2.2 and 92 for Tanzania (with a CPI score of 2.5).

In all the three countries, efforts are being taken to curb corruption as systems are made to become more transparent with better placed to apply the rule of law in government operations. However, a recent PWC report has suggested that the war on corruption in East Africa is being lost because of lack of political will in the high echelons, inadequate funding and equipment for anti-corruption institutions, an inappropriate legal framework and lukewarm enforcement as most bureaucrats who are charged with the responsibility of fighting corruption are themselves corrupt.

### 3.2 Integrity and the Fight Against Corruption

"Tanzania stands at the threshold of a new era: The new era demands a transformed public service. This will be a service that is truly transparent and accountable to the public. The service will have zero tolerance for corrupt behaviour. The service will guide the Nation as it crosses irreversibly into a poverty-free zone in the 21st Century."

H.E. President Benjamin W. Mkapa at the launch of PSRP on June 20th 2000.

In most African countries including Tanzania corruption was at a relatively low level during colonial rule. However, after independence and the move to single party systems, which concentrated power into small cliques corruption, began to rear its ugly head. As time passed, the integrity environment became dramatically eroded.

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In order to foster integrity environment and create a better environment for investment and private sector development, the Tanzania government has taken several steps.

First, in 1991, the government set up the Prevention of Corruption Bureau (PCB). In 1995, the government formed the Public Leadership Code of Ethics to curb impropriety at higher levels of public service and later it established the Commission for Human Rights and Good Governance (2001). In reality the government was preparing the legal framework to curb corruption and bring about integrity in public service. Later, the government established the Permanent Commission of Inquiry (Ombudsman) in 1996 to check abuse of power by government officials and its agencies.

When, President Benjamin William Mkapa came into power in 1995, he declared war on corruption so as to enhance the integrity environment. As a first step he established the Presidential Commission Against Corruption in January 1996. Ten months later, the Commission produced one of the most respected and commended analyses of corruption by any Africa state (commonly referred to as the Warioba Report).

The report identified areas/environments where corruption occurs and also revealed regulations and procedures that facilitate corruption. It also cited examples of dubious decisions/contracts in several departments that were perceived corrupt.

The Warioba report concluded that there was much evidence of Corruption. The report classified corruption into two categories. The first type relates to those who receive bribes to cater for their daily living needs (Petty Corruption) while the other group involves high level leaders and public officials, who are motivated by excessive greed for wealth accumulation and money (Grand Corruption). The Warioba Report had the further benefit of opening up public discussion on corruption.
Accordingly, the government took several measures to address the problem. Such measures include: -

- Appointment of a good governance Minister, who is responsible for among other things in monitoring overall strategy & implementation of anti-corruption measures,

- Adoption of Natural Anti-Corruption Strategy for Tanzania. The strategy focuses on the need for transparency and accountability in government,

- Appointment of the Prevention of Corruption Bureau (PCB). This is a unit that investigates and prosecutes corruption with the approval from the Director of Public Prosecutions (DPP),

- Establishment of the Commission for Ethics to deal with administering and enquiring into senior public appointee's Declaration of Assets and making recommendations to the president.

Along with above measures, which were implemented simultaneously with other government reform measures, Tanzania took holistic strategic approach to improve its governance system as reflected in "The National Framework on Good Governance, (NFGG) (Dec, 1999). This framework gave rise to the Accountability, Transparency and Integrity (ATIP) programme. This programme aims at supporting NFGG through: -

- Strengthening the legal and judiciary system,
- Enhancing public financial accountability,
- Strengthening oversight and watchdog institutions.

The Public Sector Reform Programme of Tanzania, which was officially launched by His Excellency, the President of the United Republic of Tanzania in June 2000 aims to transform the public service into a result-oriented public service. Among other things, it aims to create a public service of the high
calibre and integrity that is both responsive to and supportive of national efforts to deliver service to be competitive, to ensure good governance and to facilitate poverty reduction.

The PSRP has been designed in pursuit of the vision, mission, core values and guiding principles that have been promulgated in the new public services management and employment policy. Major structural and institutional changes had been effectively implemented by the end of the PSRP phase of Government reform. These changes may be highlighted under the following seven headings:

- Contracting and streamlining of Government structures;
- Reduction in employment numbers and wage bill control;
- Installation of an integrated Human Resources and Payroll Management system;
- Improved pay structure and enhanced salary levels;
- Restructuring and decentralisation for improved service delivery;
- Capacity building; and
- Improved policy and legislative environment for sustaining reforms.

The president speaks frequently on his determination to fight corruption. Nowadays there is the greater awareness of the evil effects of corruption, which are being openly discussed. Previously, some of the greatest obstacles to curbing corruption were weak political will, weak institutions, and inadequate adherence to the rule of law, entrenched patronage, weak Private sector and weak civil society.

### 3.3 Integrity Environment And Investment Promotion In Tanzania

In recognition of the necessity to build an integrity environment hand in hand with economic reforms, Tanzania took several measures such as:
Tax reforms aimed at streamlining the tax structure, broadening the tax base, and establishing a sound institutional framework (establishment of TRA and introduction of Value Added Tax (VAT), in 1997.

Parastatal sector reforms through privatisation of state owned companies and institutional reforms. The government adopted privatisation programme whereby about more than 80% of 400 public entities that existed prior to 1993, had been divested by the end of 2003.

In 1999 commercial courts were established to speed up hearing of commercial disputes thus building investors’ confidence.

Public Service Reforms; which introduced client service charters in all its ministries and agencies. President’s Office assists departments and agencies to prepare the charters. These charters are derived from or are part of mission statements and focus on what the institution sets out to do for its customers. Charters increase accountability by setting performance standards. There are consequences when standards are consistently not achieved. Embedded in the charters are annual incentives such as awards to best performing workers and institutions. In addition, courses on public service customer care and anticorruption are being run by the department of Good Governance in the President’s Office to enhance service excellence, and adherence to a code of moral or ethical values including incorruptibility.

Financial sector reforms have been achieved by way of privatisation of state owned banks, allowing foreign banks to operate alongside local banks, establishment of the Capital Market and Securities Authority (CMSA) and setting up of the Dar es Salaam Stock Exchange (DSE).

Establishment of the Tanzania Investment Centre
(TIC) with expanded mandate as "one stop centre" to promote and facilitate all investments and to advise the Government on investment matters. To minimize bureaucracy, the investment code also set a maximum period of 14 working days within which relevant government agencies were to have processed applications sent to them by TIC and that "where the Centre does not receive a written objection from the relevant authority within the specified time, the necessary license or approval shall be deemed to have been granted.

- Formation of the National Investment Steering Committee headed by Honourable Prime Minister. The Committee is entrusted with the task of investment policy formulation and solving intersectoral problems of investors on a fast track basis. Again this initiative was put in place to provide further momentum to the investment process in Tanzania.

Other measures taken to improve economic governance in summary were,

- Implementation of an integrated Financial Management System;
- Adopting an inclusive Public Expenditure Review/ Medium Term Expenditure Framework process;
- Establishment of a commercial court – as stated earlier.
- Revision of Public Finance Management and Public Procurement Act;
- Legal sector reform programme (LSRP)
- Local Government Reform Programme;

In Tanzania, there is in place a National Anti-Corruption Strategy and Action Plan (NACSAP), which basically brings

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2 TIC has been able to transform itself into a fully fledged one-stop centre with officials from the Ministry of Trade and Industry, Business Registration and Licensing Authority (BRELA), Lands, Immigration, Labour and TRA stationed at the TIC office attending to investors.
together a coalition of stakeholders (public/private) to combat corruption.

The NACSAP is envisaged to improve the quality of public service delivery through the following ways:

- Effective and transparent system of procedure and regulations.
- Enhance and organisational capacity to deliver high quality standard of service.
- Public awareness on procedures, standards of services, codes of conduct and their rights in general.

Inputs for the NACSAP emanate from the key three stakeholders namely the Government, civil society and the private sector. This relationship is critically important in the fight against corruption. No anticorruption strategy can succeed without the joint efforts of government, civil society and business. Thus, nurturing this relationship is vital in the fight against corruption.

### 3.4 Recent Reforms and FDI Inflows

Tanzania has made major progress over recent years towards putting into place a policy environment for investment promotion. Increase investment flows are a sign of an improving integrity environment. Government priorities have included stable macroeconomic environment, privatisation, promoting good governance and elimination of corruption, building a democratic nation, poverty eradication and development of a strong civil society.

Policy reforms like trade liberalisation, financial sector reforms, local government reforms, legal sector reforms, tax reforms, decentralisation, civil services reforms and enforcing accountability and measures against corruption, have enabled Tanzania to improve efficiency and to increase economic growth and FDI inflows.
The government has been fully supportive of public/private dialogue institutions. In this respect the Tanzania National Business Council (TNBC) was established and has provided a forum for public/private sector dialogue to improve business environment in the country. Its membership is 50% public and 50% private with President as Chair while the Vice Chairman is Chairperson of the Tanzania Private Sector Foundation. The Council addresses investment issues affecting domestic and foreign investors through respective Round Table meetings at which government's service delivery is called to account, with cabinet ministers attending.

The Government has in addition, embarked on the implementation of a programme of Business Environment Strengthening for Tanzania (BEST). The purpose of the programme, whose implementation started in December 2003, is to reduce the burden of businesses by eliminating as many procedural and administrative barriers as possible and to improve the quality of services provided by the government in the private sector including commercial disputes resolution. The five-year BEST plan shows that the targets will be achieved through five inter-linked components (Box 3.1).
The progressive increase in FDI stock and flows revealed in figure 3.1, correspond with the investment policy evolution and promotional efforts that the Government undertook since early 1990s as discussed in the previous section. It is evident here that investors are sensitive to domestic policy actions. After the establishment of IPC in 1990, for example, the volume of FDI at first rose sharply and then stagnated after 1995 in response to administrative weaknesses in the IPC.

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<tr>
<th>Box 3.1: Summary of the Interlinked Components of the BEST Programme</th>
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<td><strong>Components</strong></td>
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<td>Achieving Better Regulation</td>
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<td>Improving Commercial Dispute Resolution</td>
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<tr>
<td>Strengthening the Tanzania Investment Centre</td>
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<td>Changing the Culture of Government</td>
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<td>Empowering Private Sector Advocacy</td>
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Source: URT (BEST programme Volume 1, 2003)
Figure 3.1: shows considerable rise in annual FDI flows between 1990-2004 and a continuous increase in annual FDI stocks from 1998-2004.


Tanzania has generally acquired a sound reputation internationally. For instance, in April 2004, Tanzania was rated by UNCTAD survey of as the 2nd most attractive destination in Africa, just behind South Africa. In 19th November 2004 Tanzania Investment Centre was chosen as the Africa’s best Investment Promotion Agency of the year (2004) by Africa Investor Media Group, (http\www.Africa-investors.com).

3.5 Obstacles to Integrity Environment and Good Governance in Investment Promotion

As per the Warioba Report and other surveys on corruption and improving integrity such as the study “Striving for Good Governance in Africa” done by UN - Economic Commission for Africa (ECA), it has been revealed that although constitutional government is getting stronger and more democratic, countries perform badly in efforts to control corruption and
building an integrity environment. For instance corruption is rampant in the tax systems, police and the judiciary. The ECA study released in October 2004 showed that in many African countries police and the military violate the rights of civilians, electoral commissions need more independence, and costs and red tape greatly hinder business and investment activities in Africa.

The report identifies 10 areas in need of urgent action including strengthening parliaments, protecting the autonomy of the judiciary, improving the performance of the public sector, supporting the development of professional media encouraging private investment and decentralizing the delivery of services.

On the other hand, the UNCTAD Study on Good Governance in Investment Promotion and Facilitation (2002), major obstacles to Good Governance in Investment Promotion are: -

- Limited infrastructure, and institutional capacity
- Capital resources/financial constraints,
- Skills and education,
- Transportation,
- Legal system and crime,
- Bureaucracy and corruption,
- Institutionalised negative mindset.

As per the TIC/BoT/NBS investment survey (2003) on investors’ perceptions on Good Governance, results show that seven out of eleven factors had negative effect and only four were rated favourably (Figure 3.2). Factors considered included bureaucracy, corporate corruption, custom procedures, domestic political stability, legal system, internal security, investment facilitation, public sector corruption, regional political stability, speed of government decision-making and tax collection efficiency.
Regional and domestic political stability, investment facilitation, internal security, are four out of eleven factors that were positively rated (Figure 3.2).

On the other hand, factors that were negatively rated include; bureaucracy, corruption, effectiveness of the legal system, customs procedure, tax collection efficiency and speed of Government decision-making process. All these factors though rated negative, have been improving between “start-up” and 2003 periods. Reasons behind the improvements include, among others, the sustained efforts by the Government on the fight against corruption as well as reduction of bureaucracy by transforming the speed of Government decision-making process.
4.0 THE NEED FOR CORPORATE GOVERNANCE

As the private sector is increasingly becoming a key partner in development in many African countries, the importance of creating better environments for private sector development is critical. Similarly, in order to build integrity and attract both local and foreign investors, the private sector has to accept, and implement Corporate Governance.

As a recent World Bank report stated, "Corporate Governance is concerned with holding the balance between economic and social goods and between individual and communal goals, the aim being aligning as nearly as possible the interest of individuals, corporations and society”

In many African countries nowadays, corporate governance has become a critical element of business management and economic growth. Elsewhere, massive economic crises and corporate failures have been closely associated with the lack of good corporate governance. Lack of sound corporate governance has fuelled corruption and cronyism while suppressing sound and sustainable economic decisions.

Results from some surveys carried out, demonstrated that there is a positive correlation between good corporate governance and increasing capital flows. It has been suggested that good corporate governance reduces cost of capital as it provides a positive global premium that tends to attract investment. Pillars of corporate governance include transparency, accountability, probity and respect for the rights of all stakeholders.

The OECD Principles on corporate governance (2004) constitutes a balanced benchmark for corporate governance. The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing
good corporate governance. They also provide the basis for an extensive programme of cooperation between OECD and non-OECD countries and underpin the corporate governance component of World Bank/IMF Reports on the Observance of Standards and Codes (ROSC).

However, as the world is becoming smaller and smaller and with increased globalisation, companies/corporations worldwide cannot escape from the global movement that shapes standard principles of corporate governance. Tanzania has so far developed her own national code of corporate governance.

5.0 THE WAY FORWARD

Though in many African countries, leadership has have done much to advance their national economies over the past decade nevertheless much remains to be done, as overall economies are small and underdeveloped. There is no conducive environment for investment promotion and economic growth. Good governance and enhanced Integrity environment as pillars to better economic and investment climate are yet to be achieved.

Many countries are perceived to be corrupt as the political will to counter corruption is perceived as lacking. It is true in many countries that there is “much talk” but little real action against corruption.

African Leaders have to institute and promote good governance and integrity environment as a foundation for creating a favourable investment climate. Government operating an integrity environment creates willingness in people and the business community to trust and cooperate. Courage is of utmost importance in maintaining integrity. Without strong, clear leadership and support throughout the government, its various departments and the law enforcers, it is very difficult for any real advance in the fight against the evils of corruption to succeed.
Government and corporate leaders must: -

- Live and openly role-model integrity in all their dealings,
- Make morally and ethically correct decisions regardless of cost or difficulty,
- Hold on to the vision and of clean government and clean business,
- Be courageous in sharing their sentiments and recommendations,
- Have clear values to guide them so as to take bold decisions,
- Have the courage of owning their mistakes and learning from them.

All African Countries must rectify the African Union Convention on Prevention and Combating Corruption and Related Offences to remove avoidance clauses. They must also agree to take part in peer reviews of their governance performance. Measures like strengthening the legal and judiciary system, enhancing public financial accountability and strengthening oversight and watchdog institutions are critical in promoting integrity environment.

Another important factor in promoting good governance is public awareness on procedures, standards of services, codes of conduct and their rights in general. Information regarding services provided by Ministries, Departments and Agencies should be spelt out clearly in the client charters and disseminated freely.

Success in creating an integrity environment for investment promotion and economic growth depends on commitment and political will to implement necessary reforms as recommended.

Finally, WITHOUT GENUINE COMMITMENT – ALL IS LOST!!
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