

# **Controlling fiscal corruption**

**Theoretical approaches and  
illustrations from Tanzania**

Odd-Helge Fjeldstad

**WP 1999: 6**

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# Summary

The primary concern of this paper is to discuss the role of various economic factors in explaining corruption in tax administration. The emphasis is on how the incentive structure of the tax system affects the decisions of tax collectors to engage in fraudulent behaviour. It is argued that divergent motivations of the individuals involved and imperfect information lie at the core of understanding these problems. Divergent motivations open up the door to strategic behaviour where agents are pursuing their personal goals, and not the success of the institution. This is a particular problem when information is asymmetric across individuals. Such informational asymmetries may be significant in the tax administration. The paper starts with a set of research questions based on empirical observations from local governments in Tanzania, and examines the fundamental ideas, basic assumptions and limitations of possible theoretical approaches to answering these questions.

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## 1 Introduction

Corruption seems to take place in practically every country in the world, and should be considered a potential problem everywhere. Still, corruption appears to hit developing countries hardest (Transparency International, 1998). In a recent survey covering public and private sector leaders in more than 60 developing countries, corruption in the public sector was rated as the major obstacle for economic growth and development (Kaufmann, 1997 and 1999).

One of the areas of government where corruption looms largest is in the assessment and collection of taxes (Galtung, 1995:1). Studies in different developing countries indicate that it is not uncommon that half or more of the taxes that should be collected cannot be traced by the Treasury (Bird, 1990, 1992; Alm et al., 1991; Fjeldstad and Semboja, 1999). This tax base erosion has had a variety of fiscal effects and there are at least three reasons for concern. First, revenue losses from tax evasion and corruption become particularly damaging at a time of substantial budget deficit. Second, both horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ due to different opportunities for bribing (Alm et al., 1991: 849). Third, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies (Tanzi and Shome, 1993:808). Acts of corruption by tax collectors often play a role in promoting or sustaining underground economic activities and in facilitating tax evasion (Tanzi, 1994:17; Tanzi, 1995). Fiscal corruption thus contributes to undermining the legitimacy of government. Furthermore, citizens' disrespect for the tax laws may expand disrespect for other laws.

Fiscal corruption are caused by the aggregate effects of numerous decisions by taxpayers, tax collectors, administrators, and political decision makers. Individuals respond to the natural, cultural, social, political, legal and economic environment that surrounds them. In this paper we will concentrate on economic explanations and mainly consider the economic consequences of corruption in tax administration. The emphasis is on how incentives and disincentives in the tax system (including the tax administration) affect tax collectors' decisions about whether to engage in fraudulent behaviour or not. We argue that divergent motivations and imperfect information lie at the core of understanding these problems. Divergent motivations open up the door to strategic behaviour where agents are pursuing their personal gains, rather than the success of the institution. This is a particular problem when information is asymmetric across individuals. Such informational asymmetries may be significant in tax administration.

Our focus on the economic forms and ways of explaining this phenomenon does not imply that we believe that these are the only aspects of importance. Other aspects like social networks, family relations and norms matter, and may also be important in certain contexts. However, we consider this as mainly an issue of professional division of labour.

We will use Tanzania as our frame of reference. In *Transparency International's* corruption perception index for 1998, covering 85 countries, Tanzania is ranked aside Nigeria as one of the most corrupt countries. Corruption is not a new phenomenon in Tanzania. Wastage, corruption and mismanagement in the public sector have grown significantly since the late 1970s. According to Mukandala (1983:261), the civil service in the early 1980s was "increasingly riddled by corruption and embezzlement of public funds". The Auditor General's reports from the 1980s show that this trend continued (Semboja and Therkildsen, 1992:1103). By the mid 1990s, corruption in Tanzania had become rampant in all sectors of

the economy and politics (Commission on Corruption, URT 1996).<sup>1</sup> In tax administration these issues have been particularly pressing, given the need to raise more tax revenues. Thus, the Indian Ocean Newsletter (no. 726, 6 July 1996:1) refers to [fiscal] corruption and tax evasion as the country's two major ills.

The paper is organised as follows. In section 2 the concept of fiscal corruption is defined. Section 3 focuses on possible causes of fiscal corruption. Our point of departure is economic theory of organisations, and we discuss questions of imperfect information and the incentive (motivation) problems that such questions imply in tax administration. Critical factors in this respect are how the tax law is administered, perceptions about tax enforcement, including the probability of being detected and punished, and the size of the potential gain of fraudulent behaviour. We also discuss the impacts of collusion among taxpayers and collectors on these parameters.

The main part of the paper is written around four questions that refer to observed phenomena of fiscal corruption in local authorities in Tanzania based on findings from a research project recently concluded<sup>2</sup>:

*1. What impacts have wage incentives on the performance of tax collectors?*

In section 4, we examine the correlation between wage incentives and corruption. We discuss the efficiency of wage incentives in curbing corruption.

*2. What impacts do controls and monitoring have on the tax collector's performance?*

The aim of the monitoring policy is to get the auditors to identify and report tax fraud. The wage contract between the government and the tax collector will then include the probability of an audit. However, such contracts are very sensitive to strategic behaviour, including collusion, from the parties involved. Section 5 examines possible incentive problems related to monitoring and auditing.

*3. What impacts do public sector regulations have on the incidence of corruption?*

The focus in section 6 is on how the tax structure and characteristics of the tax system may facilitate corruption.

*4. What impacts does the institutional set-up of local authorities, including the bureaucratic structure, have on the incidence of corruption?*

In section 7, we consider how the bureaucratic structure of local authorities in Tanzania may itself affect the incidence of corruption. The governance structure is relatively complex. In addition, foreign aid organisations are heavily involved in some councils. This agency structure, characterised with several principals who independently try to influence local government revenue mobilisation and, thus, the actions of the tax collectors, may result in severe weakening of incentives for the collectors.

Based on the discussion in previous sections, section 8 reports on the mechanisms and scope of fiscal corruption in local authorities in Tanzania.

The preceding analysis does not explain why corruption levels vary across local authorities in spite of similar tax structures and administrative set-ups, including wage and monitoring

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<sup>1</sup> The Commission, led by Joseph Warioba, was appointed in January 1996 by the then newly elected president Benjamin Mkapa. Its task was to identify the extent and causes of corruption in the country as part of the Government's strategy to fighting corruption. The Commission submitted its report in December 1996. Some of the findings and recommendations of the Warioba-report are summarised in appendix 1.

<sup>2</sup> The project "Tax evasion and fiscal corruption in developing countries: A study of the local government tax administration in Tanzania" was initiated in 1996 and concluded in 1999. The project was led by the author and carried out in close collaboration with professor Joseph Semboja.

systems. In section 9, we explore a theoretical approach that may contribute to explaining these observations.

Finally, in section 10, we briefly sketch some policy implications for fighting fiscal corruption. Relevant issues in this respect are measures to (i) reduce the opportunities for corruption, (ii) improve incentives for tax collectors, and (iii) impose credible sanctions against culprits. Furthermore, we argue that it is important to identify and account for the roles of all key stakeholders in the tax enforcement process.

## **2 What is fiscal corruption?**

The term *corruption* comes from the Latin verb to break, *rumpere*, which implies that something is broken. This something might be a moral or social code of conduct, or more often an administrative rule. The corruption literature has pursued a number of different strands, and no single definition of corruption is generally accepted. A common and simple definition of corruption is that it is *the abuse of public power for private benefit*. Another definition, found in Webster's *New Collegiate Dictionary*, is *inducement to wrong by bribery or other unlawful or improper means*.

Three requirements must be fulfilled if an act carried out by a civil servant is to be defined as corruption (Tanzi, 1995:167-168):

- First, the act must be intentional and in conflict with the principle of objectivity in labour performance. This implies that the rule that is broken is precise and transparent.
- Second, the person who breaks the rule must derive some recognisable benefit for himself, his family, his friends, his tribe or party, or some other relevant group.
- Third, the benefit derived must be seen as a direct return from the specific act of "corruption".

For our purpose, focusing on fiscal corruption, it may be convenient to settle for a rather specific two-part definition, one for taxpayers and the other for collectors (Low, 1995):

1. Tax collectors are corrupt when they use conferred monopoly power to extort money from taxpayers, or collude with taxpayers in defrauding the treasury, or find some other means of embezzling money from the tax authorities.
2. Taxpayers evade taxes when they intentionally fail to declare taxable economic activity or use false declarations, with or without collusion from tax collectors.

In accordance with the definition above, tax evasion is an illegal activity, although the economic activity that may have generated the tax liability in the first place need not be illegal. Tax evasion should therefore be distinguished from *tax avoidance*, which is the legitimate use of tax loopholes to reduce or minimise tax liability. The boundaries between evasion and avoidance may, however, at times be vague (Pyle, 1993:59). To make a distinction between them for analytical purposes, Cowell (1985) has suggested that the essential difference is that avoidance implies certainty on the part of the taxpayer, whereas evasion involves risk.

## **3 Incentive problems in tax administration**

### **3.1 Introduction**

A public institution or department must co-ordinate the activities of its constituent parts to be successful. Effective co-ordination is, however, problematic when the different activities are

managed by individuals whose primary concern is personal gain, not the success of the institution. Incentive problems in the public sector are related to three matters (Campbell, 1995; Hirshleifer et al., 1992; Kreps, 1990). The first has to do with conflicts of interest or divergent objectives between the superiors (management) and the executives. The second matter has to do with the fact that the executives often possess relevant information which their superiors lack. The third matter is related to the difficulties of establishing incentive systems that foster the institution's goals. Imperfect information and divergent motivations between the actors involved lie at the core of understanding these problems.

Divergent motivations open up the door to strategic behaviour where agents are pursuing their personal self-interests, and not the objectives of the institution. This is particularly a problem when information is asymmetric across individuals. Such informational asymmetries may be significant in tax administration. For example, tax collectors are often better informed about the revenue potential of a tax base than is the top management of the treasury. Tax collectors may thus have incentives to exploit these informational advantages to their own personal gain, whereas the management has incentives to encourage tax collectors to reveal truthfully their knowledge of the revenue potential. By the same token, taxpayers may have informational advantages over tax collectors concerning their tax liability.

### *3.2 Principals and agents*

We will use a principal-agent-client (P-A-C) framework as a point of departure for the analysis (Klitgaard, 1988).<sup>3</sup> This model focuses on the relationship between the *principal*, in this case the government or the top level of the local tax administration, an *agent*, i.e., the tax administrator or collector, and a *client*, i.e., the taxpayer (see figure 3.1).<sup>4</sup> The tax collector (inter)acts as an agent (A) on behalf of the principal (P) with the taxpayer (C). Within this theoretical framework we assume that tax collectors (A) and taxpayers (C) are motivated by narrow self-interest.<sup>5</sup> This implies that their decision to behave honestly or illicitly are based on calculations of potential personal gains and losses that may result from their behaviour.

As a starting point we will assume that the principal's objective is to raise a given amount of tax revenue while keeping the social cost of raising revenue at a minimum level.<sup>6</sup> We do not consider other targets of taxation, such as horizontal equity and the redistribution of income.

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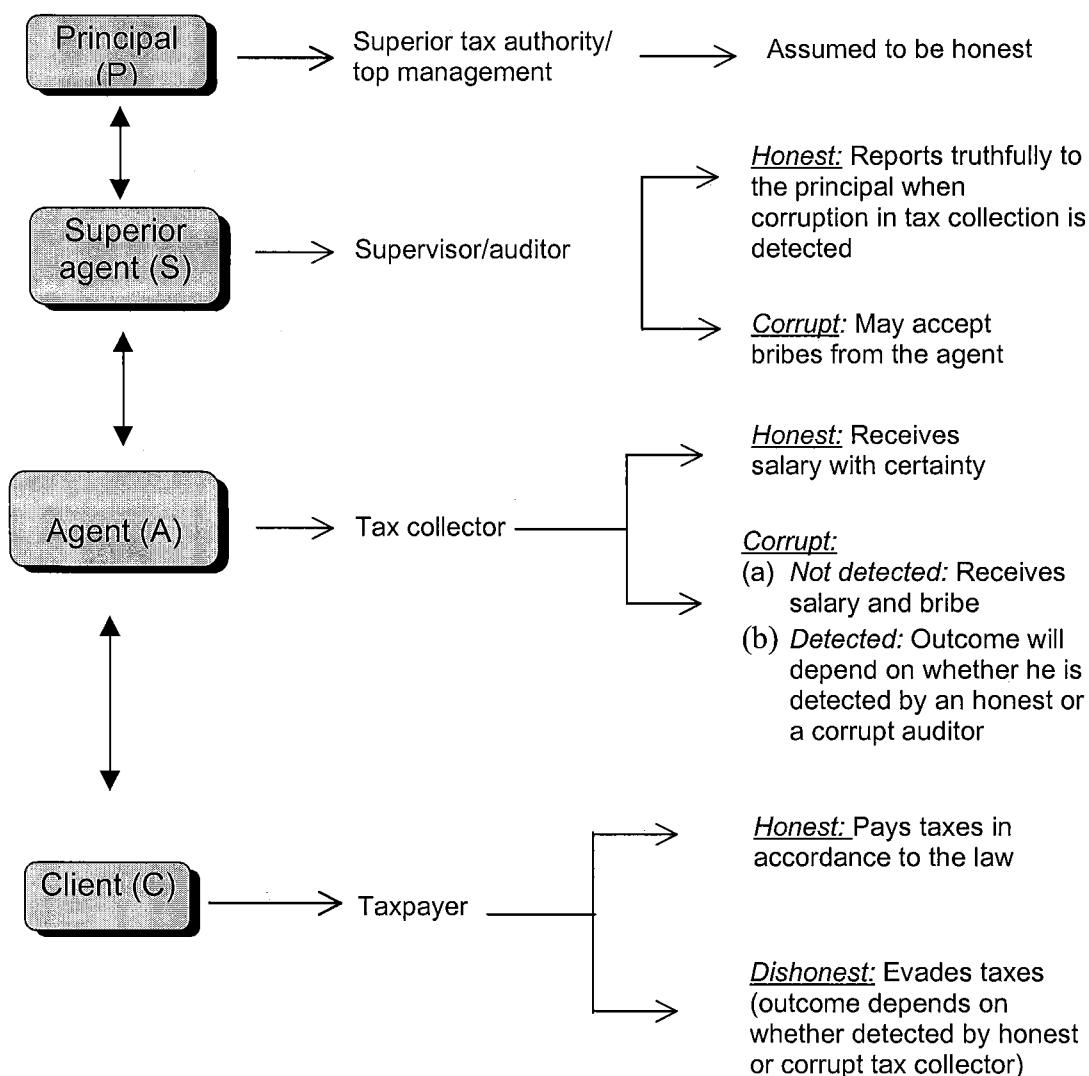
<sup>3</sup>This approach builds on Becker (1968) and Becker and Stigler (1974).

<sup>4</sup>In the tax administration, there are of course many agents and clients. In general, there are several levels of agents, - superiors and subordinates, supervisors, auditors, etc. Similarly, agents (collectors) may interact with a large number of clients (taxpayers).

<sup>5</sup>In economics we would say they are "rational utility maximisers".

<sup>6</sup>In the principal-agent literature which focuses on the public sector it is usually assumed that the principal embodies the public interest, in other words, it is a highly principled principal. In section 7, we discuss this assumption. We argue that in many public institutions, including tax administration, there are probably several principals who try to influence the action of the agent (i.e., the tax collector) in different directions.

**Figure 3.1 A stylised tax administration within the principal-agent framework**



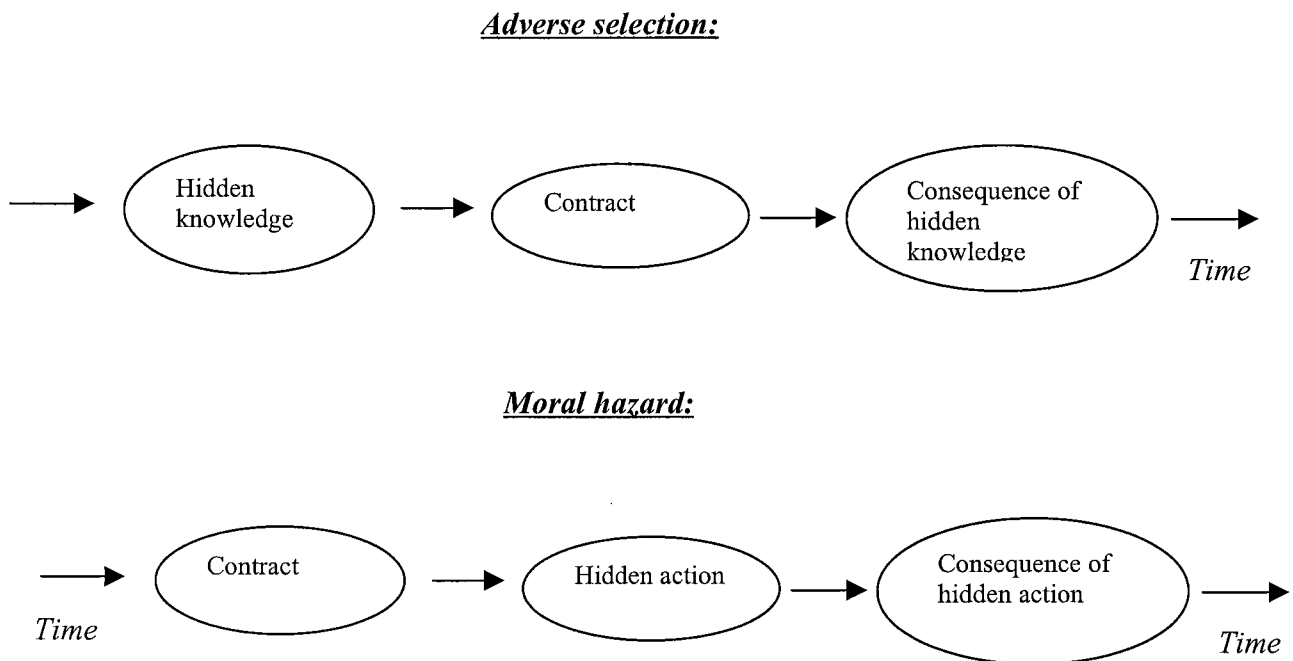
As noted above, the core of the principal-agent-client problem are divergent objectives and asymmetric information between the actors involved. The principal understands this fundamental asymmetry of objectives and information. However, the information problem makes it difficult for the principal to control the agent, along two dimensions: (1) adverse selection; and (2) moral hazard (figure 3.2).

The problem of *adverse selection* has to do with the fact that the agent has *hidden knowledge* prior to contracting with the principal. The tax collector will, for instance, have more knowledge about his own competence and qualifications, including honesty, than will the principal who employs him. This problem arises because not all tax collectors *ex ante* can be identified as being honest or dishonest. There are many indications that this is a real problem in some institutions. In particular, tax administrations, immigration and harbour authorities in developing countries seem to be exposed to the problem of attracting dishonest agents. In spite of poor salaries, it may be very attractive to work in these institutions. For instance, in the *Tanzanian Daily News* (April 27, 1996, p. 7) we find the following statement: "Some Tanzanians today are willing to take up any job for which they are paid below the not-so-honourable poor man's salary of 15,000,- [Tanzanian shillings] so long as there are (promises or) prospects of making side income through theft and bribes". In the same article

the author refers to a story where he told his uncle that he had started to study journalism in college. The uncle looked "visibly disappointed and wondered why someone should waste three years learning only how to become a scribe. He asked why I hadn't become a policeman or an immigration officer or a customs official". Cases are also reported where attractive jobs that provide opportunities for extra incomes through corruption are auctioned off to the highest bidders. These examples illustrate that opportunities for extra incomes through corruption may attract potentially dishonest persons (opportunists) to these departments (including, the tax administration). Thus, the share of potential dishonest persons in these departments may be significantly larger than the share of opportunists in the rest of society.

The problem of *moral hazard* arises after contracting when the agent takes *actions hidden* or unobserved by the principal. For instance, when the principal employs the agent to collect taxes the agent will evidently be in a better position to know about any shirking or opportunistic behaviour he chooses to engage in. Since the agent's actions cannot be observed without costly monitoring, the agent may take bribes and/or embezzle funds, or he may put little effort into tax collection.

**Figure 3.2 Problems of asymmetric information**



Thus, the principal's problem arises when, as is usually the case in the public sector, he has poor knowledge about the agent's type, either honest or dishonest, and poor information about the agent's (and the client's) activities, either productive or corrupt. The principal cannot tell how much of the outcomes of tax collection he observes are due to the agent's activities on his behalf. After all, the agent has incentives to mislead the principal into thinking he is working only on productive activities, never on corrupt ones. The tax administration like any other bureaucracy is not subject to competition and can set its own agenda, which (may) have nothing to do with the principal's (the government's) objective.

Consequently, the principal faces two problems:

1. How to screen and detect opportunists before they are employed, i.e., how to solve the problem of adverse selection?
2. If opportunists are employed, how to design an incentive scheme that makes them choose to be honest

The first question is about recruitment procedures, while the second question focuses on how potentially corrupt individuals (opportunists) make their decisions.

If the requirements regarding skills and qualifications to a job are low, and the monitoring of applicants is poor, opportunists may easily enter the system (i.e., *adverse selection*). Therefore, some kind of screening is needed to avoid recruiting opportunists. If the tax administration (or any other department) is known to be corrupt, we will expect potential corrupt individuals being attracted to the institution, and thereby contributing to a bad composition of the staff. A change of the department's reputation may be achieved over time by providing the employees with incentives to solve the problems of moral hazard (see below). Wage policy may play an important role in this context.

The problem of *moral hazard* is related to the fact that a person's decision to behave in either a corrupt or honest manner is made after he or she is employed. The principal has two options – a carrot and a stick – to solve this problem: The carrot is to provide incentives for honest behaviour. The stick is to increase the probability of being detected and punished. Intensifying monitoring and controls of the agents can increase the probability of being detected. Punishment may be in the form of dismissals, imprisonment and/or confiscation of incomes and wealth that the agent has acquired through corruption. Thus, the principal may influence the acts of the agents by changing the risk of behaving corruptly, and by increasing the personal costs through reduced incomes and wealth if detected. However, it may be expensive for the principal to tackle these problems. Before proceeding to discuss wage incentives for tax collectors (section 5), we will discuss more specifically the incentive structures facing taxpayers (C) and tax collectors (A), respectively.

### 3.3 *Factors influencing the tax collector's decisions*

Principal-agent analysis may help to identify some key ingredients and characteristics of the incentive problems in tax administration, including situations where collectors and taxpayers collude to defraud the treasury. Thus, in the context of fiscal corruption both the taxpayer's and the collector's perspective must be taken into consideration to identify the factors impacting on compliance behaviour (Fjeldstad, 1996).

Regarding the taxpayer's (client's) behaviour, tax evasion is practised in different forms, with or without the collusion of tax collectors. In the classical tax evasion model developed by Allingham and Sandmo (1972) the taxpayer's decision to evade or not is based on calculations of costs and benefits of his behaviour. The evasion gamble is based on the taxpayer weighing the benefits from successful evasion against the risky prospect of detection and punishment. The taxpayer's behaviour is influenced by factors such as the difference between the amount of the tax that is to be paid without evasion and the tax payment with fraud (which determines the benefits of evasion), and the probability of detection and the penalties for fraud (which determine the costs). The model predicts that if detection is highly probable and penalties severe, people will become more compliant.<sup>7</sup>

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<sup>7</sup> This formulation of a taxpayer's decision about whether or not to evade is of course over-simplified, and a number of criticisms have been levelled against it. One limitation has to do with the use of penalties applied to those evaders who get



We assume that the tax collector (agent) will be corrupt, with or without the collusion of taxpayers, when his expected net benefit from corruption exceeds the expected benefit from behaving honestly. The variables driving the tax collector's decision are similar to those affecting the taxpayer, i.e., the size of the potential gain, the likelihood of detection, and the consequences of detection.

The interaction between taxpayers and tax collectors depends on their relative bargaining powers and to what extent agreements between the two groups are reached. Thus, depending on their bargaining power tax collectors will either participate in revenue fraud by splitting unpaid taxes with taxpayers (collusion), or will simply appropriate the full amount of the tax not handed over to the (local) government's treasury. The latter outcome arises in circumstances where the taxpayer has zero bargaining power. A related situation is one where tax collectors simply extort money from taxpayers, by overstating the real liability of the taxpayer. The bargaining element is here based on the ignorance of the taxpayer, or on his being intimidated by the tax collector. A third case, involving no consideration of bargaining power, occurs when a tax collector embezzles tax revenues without any collusion on the part of the taxpayer (see box 3.1). In this last case, the only requisite is that the tax collector is dishonest, and has direct access to tax proceeds. This situation only occurs when taxes are paid in cash or in some other easily negotiable financial instruments.

Collusion may also have impacts on the actors' probability of being detected. However, on a general basis we cannot ascertain in what direction probability is affected. For instance, we would assume that the taxpayer's *perceived* probability of being detected for evasion drops if he can count on collusion from the tax collector. On the other hand, if the taxpayer and collector fail to "reach an agreement", both run the risk that the other may reveal the attempted fraud. Thus, in some cases collusion may decrease the *actual* probability of being detected for both the taxpayer and the collector, while collusion may have the opposite effect in other situations.

If the taxpayer has to collude with the collector and share the evaded taxes, the effective amount paid by the taxpayer (i.e., the tax plus the bribe) may be higher compared to a situation without collusion. On the other hand, if collusion reduces the probability of being detected, a taxpayer may be tempted to indulge in greater fraud than he would consider in the absence of co-operation with the collector. The size of the bribe received by tax collector, i.e., the value of monetary gain accruing from corruption will probably vary with the tax rate. For example, it is reasonable to assume that evasion of higher taxes will require larger bribes.

However, tax evasion and fiscal corruption may, as noted above, be carried out without any collusion between taxpayers and collectors. A taxpayer may, for instance, try to evade taxes without exercising the option of bribing a collector, and a collector may not need co-operation from the taxpayer if he can carry out an independent fraud, or can extort a bribe from the taxpayer. Finally, while the penalty rate is exogenous for the taxpayer, the higher the penalty faced by the taxpayer when detected in evasion, the better the opportunity for the collector to bargain away fraudulent gains from the taxpayer.

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*caught. Raising penalties is not a costless way of ensuring compliance. This means that the penalties actually imposed may differ significantly from those in the tax law. Another limitation is due to the fact that, according to the theory, the taxpayers know precisely the actual probability of being detected and the penalties they will endure, and that they make a cost-benefit calculation on this basis. However, the tax administration often keeps this information highly confidential. For most taxpayers, the probability of being detected is only a subjective parameter. The taxpayer's decision to evade or not, is therefore not based on the actual probability, but on his perception of the probability of being detected (which may vary significantly between individuals). Cowell (1990) provides an interesting review of the tax evasion literature.*

### **Box 3.1 A typology of fiscal corruption**

Within the principal-agent-client framework (P-A-C) it may be useful to make a distinction between (1) *external* corruption which is essentially an A-C relationship, and (2) *internal corruption* which basically is a P-A relation (see Klitgaard, 1988:50):

**1. External corruption (A-C relation).**

This takes two major forms:

**1.1 Collusion.**

Tax collectors and taxpayers collude to reduce tax liabilities.

**1.2 Extortion.**

Tax collectors (assessors) make individual judgements on tax liability, and threaten taxpayers with higher rates, preying on their ignorance or their unwillingness to subject their cases to costly litigation.

**2. Internal corruption (P-A relation).**

There are three major forms:

**2.1 Embezzlement.**

Tax collectors and/or employees of the tax administration make off with funds collected.

**2.2 Fraud.**

Overprinting of tax stamps and labels.

**2.3 Collusive auditors.**

The tax collector (A) may bribe the auditor (S) into not revealing incriminating information.

The ways in which corruption is carried out in practice varies between tax bases. This has partly to do with opportunities, for instance, the method of collecting the tax.

Numerous variables are influencing the tax collector's decision to either behave honestly or corruptly. Box 3.2 presents a list of some key factors (Rijckeghem and Weder, 1997:21). Most of these fit neatly into the theoretical framework developed in section 3. In the following sections we discuss some of these variables.

### **Box 3.2 Factors impacting on fiscal corruption**

1. *Payment:*
  - Salary.
  - Fringe benefits, pensions, allowances, other financial incentives.
2. *Controls:*
  - 2.a. Internal control:
    - Supervision and control systems.
    - Standards of performance for employees.
    - Recruitment and selection procedures for personnel.
    - Rules and procedures for tax collection and reporting.
  - 2.b External control:
    - General auditor's independence and capacity.
    - Law and order tradition, checks and balances.
    - Public attitudes about corruption (e.g., public tolerance of corruption and the role of civil society).
    - Information made available to the public (e.g., newspapers, media).
    - The judiciary system.
3. *Statutory penalty:*
  - The size of penalty (amount of fine, confiscation of wealth, prison sentence).
  - Administrative sanctions.
4. *Public sector regulations:*
  - Governmental regulations (e.g., licences, fees, the etc.).
  - The tax law and tax regulations (including tax bases, collection procedures and transparency).
  - Statutory tax rates.
5. *Other factors:*
  - Parliament and political institutions.
  - The bureaucratic structure.
  - Political and administrative leadership.
  - Concentration of economic power.
  - Education of civil servants.
  - Cultural and ethnical determinants (e.g., the role of social networks and family ties).
  - Development aid organisations.

## **4 Payment**

What impacts have wage incentives on the performance of tax collectors? A common observation about the wages received by tax collectors in many developing countries is that they are so low as to invite corrupt behaviour (Chand and Moene, 1997; Mookherjee, 1997). This is also the case in Tanzania. During the 1970s and 1980s, there has been severe erosion in the real wages and salaries of civil servants. Average salaries in the late 1980s, for example, provided only one-fifth the purchasing power of the 1970s. Civil servants also receive monetary allowances of, on average, 35 percent of wage remuneration. Allowances differ significantly between the different categories of civil servants. The upper ranks of the civil service, for instance, enjoy several in kind benefits, such as free housing, telephone, and transport. (World Bank, 1994). According to Mans (1994:378), the average civil servant's package of wages and monetary allowances in the early 1990s covered only about 40 percent of the expenses of a typical household. To say that civil servants cannot live on their wages is not a metaphor, but a statement of fact. As civil servants do live, it means that they have other sources of income in addition to their salaries. Other sources of income often include income from their "shambas" (plot of land) or from a second or third job in the private sector.<sup>8</sup> There is a strong presumption that corruption constitutes a third additional source of income.

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<sup>8</sup> Long delays in salary payment add to this problem. More than one-month delays are not uncommon in local authorities in Tanzania. In a recent survey covering tax collectors in two district councils, the majority of the respondents answered that they survived on products and incomes from their plot of land (Fjeldstad and Semboja, 1999).

In a survey on corruption in service deliveries in Tanzania, 78 percent of the respondents mentioned low salaries of public service workers as being a major incentive to seeking and accepting bribes (CIET International, 1996:24). One responded stated:

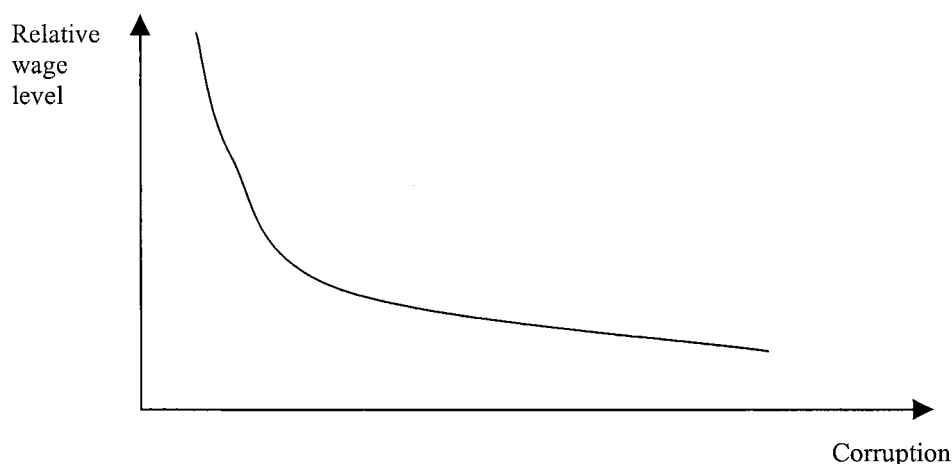
*You may find someone having not received salary for at least three or four months. What do you think he will eat? He will eat us!*

Anecdotal evidence from other poor countries indicates the existence of pay structures where the official salary is well below the wages the tax collector could achieve in alternative employment. However, since collectors receive excessive incomes from bribes there is strong demand for tax collector jobs. Tanzi (1995:174) reports, for example, that in an African country, "...three years ago, the government reduced the wages of customs officials to zero for six months under the assumption that 'they could take care of themselves'."

Many scholars, including, Palmier (1983); Gould and Amaro-Reyes (1983), and Klitgaard (1988) seem to argue that increasing civil service wages will reduce corruption. The implication here is that corrupt behaviour is induced by poor pay, and would therefore reduce or disappear if incomes were to rise. The basic idea is that a rise in the tax collector's salary is like an increase in his fine for bribery, since that is what he will lose if he is caught and fired.

What does empirical evidence tell us about the relationship between public sector wages and corruption? In a study that comprises 25 developing countries, Rijckeghem and Weder (1997) find that corruption seems to be less in countries where bureaucrats are relatively well paid compared to private sector employees. This relationship is illustrated in figure 4.1

**Figure 4.1** *The association between corruption and wages in the civil service*



The figure shows that an increase in the public sector wage level relative to the best private sector alternative may contribute to reduce corruption.<sup>9</sup> However, in order to eliminate

<sup>9</sup> Based on historical data, Lindbeck (1998) argues that the low corruption in Sweden during the period 1870-1970 partly was due to the fact that high-level civil servants earned 12-15 times the salary of an average industrial worker. Many

corruption very large increases in salaries are needed.<sup>10</sup> Thus, fighting corruption only on the basis of wage incentives may be extremely costly to the authorities, and will most likely have limited impacts if not combined with other measures (Besley and McLaren, 1993; Tanzi, 1998). In circumstances with weak – or non-existent - auditing and monitoring capacity, and pervasive propensity for corruption, the present low salary level in the local tax administrations in Tanzania may actually be too high in the sense that even lower salaries would not lead to increased corruption. Furthermore, if civil servants are paid a significantly higher salary than their private sector alternatives, some people may be willing to pay bribes to be chosen for these public jobs. Thus, the high pay policy may create new types of corruption (Wei, 1999).

## **5 Control and penalty**

What impacts do controls and monitoring have on the collectors' performance? In addition to wage incentives, the collector's decision whether to behave honestly or corruptly depends on the anticipated costs of the decision. Two variables matter: First, the probability of being detected, and second, the size of the penalty. However, the behaviour of the bureaucrat does not need to be influenced by a high probability of being detected if the penalty is insignificant. Similarly, the size of the penalty may be unimportant if the probability of being detected is minimal.

The expected costs of corruption are also influenced by the following factors:

- The possibility of getting a new job if detected and fired.
- The moral costs connected to corruption: There may be internalised moral costs connected with corruption that mainly reflects the individual actor's personal view on being involved in corruption. These costs are related to norms and what is considered to be morally accepted. Typically, if the norm says that corruption is wrong the moral costs will be high. This has partly to do with the public tolerance of corruption. However, the dominating norm within the tax administration may diverge very much from the norm of the broader society. Thus, we will expect that the more widespread fiscal corruption is, the lower are the internal moral costs connected with corruption.
- The stigma costs connected to corruption: This has to do with the possible importance of losing one's good name if detected. Thus, stigma costs reflect one's perception of other peoples' view of corruption, and may vary depending on the number of other tax collectors involved in corruption. If a collector observes that many of his colleagues are corrupt, we may expect that the stigma costs connected with corruption are relatively small.
- The extent of corruption in the department: This has, as discussed above, an impact on the stigma costs, and also on the probability of being detected and the credibility of penalties. In a highly corrupt department, a collector may just pay a bribe to the auditor if detected.

The monitoring problem can also be thought of in terms of principal-agent relations (see figure 3.1). For instance, given that the tax collector has private information about the revenue potential of the specific tax base, he can report the tax revenues collected to be

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*scholars also attribute the low level of corruption in Singapore and Hong Kong to the relatively high salaries of senior bureaucrats and politicians (Wei, 1999).*

<sup>10</sup> *Rijckeghem and Weder (1997) estimate, for instance, that to reduce the corruption level in Ghana and Colombia to the low Singapore level, one needs to raise the public sector's pay by 975 percent and 660 percent, respectively.*

lower than what is actually the case. The tax collector could claim that a low tax yield is due to exogenous factors, e.g., poor weather conditions, or low capacity in the tax administration, problems of transport, etc., when they really are due to embezzlement. In order to limit this information asymmetry (and the potential rent extracted by the tax collector), the principal can hire an auditor.<sup>11</sup>

The role of the auditor is to reveal the true level of taxes collected for the principal. Thus, the goal of the monitoring policy is to identify and report tax fraud. If corrupt collectors are caught they are fired. Hiring an auditor, however, does not automatically solve the problem. The problem for the tax authorities (the principal) is that the auditor is difficult to control, along two dimensions:

- The auditor may simply not work very hard to find violations (low effort).
- The auditor may, on revealing fraud, fail to report and offer to take a bribe from the tax collector instead (collusion).

These are both problems of *moral hazard* (see section 3.2). The problem of collusion can to some extent be dealt with by engaging an (external) auditor to audit the (internal) auditor ("hawk over hawk"). Thus, the principal may, with some probability, catch the (internal) auditor in the act of taking a bribe, and can fire him in that case. However, the problem of low effort cannot be detected through control mechanisms, since the principal cannot observe how hard the auditor is working. The solution for the principal is to design an incentive scheme that stimulates effort. However, a pure wage solution for auditors has its limitations in reducing corruption. For payment to influence effort, payment must be related to the fulfilment of certain goals, in this case to detect and report fraud. Thus, a bonus system linked to the number of fraudulent cases reported to the principal may provide the auditors with the right incentives. The reward (or bonus) to the auditor detecting fraud must, however, match the potential bribe from the tax collector. In a situation where bribes are very large, this may therefore result in a very expensive monitoring system.

The main point with the discussion above is that the implementation of monitoring contracts is sensitive to strategic behaviour from the parties involved. In summary, lack of effective controls facilitates corruption, and monitoring systems may also be part of the corruption structures within tax departments. What is the situation in local authorities in Tanzania? Financial control is, in principle, exercised through several mechanisms, generally grouped into internal and external. Internally, the revenue (finance) department of the council is responsible for the "daily" accounting work, including control. External audit is to be done by the Auditor General's office. In 1995, Semboja (1995) reports that the audit section in Kilosa District Council (DC) had not yet been established. However, through a regional arrangement, councils in the region shared an internal auditor who is stationed in Morogoro Municipal Council, but he has not been in Kilosa "since the beginning of the year due to poor health". By July 1997, internal auditing was still not carried out in Kilosa DC (Fjeldstad and Semboja, 1999). Furthermore, the external *Office of Controller and Auditor General* is in general understaffed, and has little capacity to undertake comprehensive audits because of severe shortage of qualified and trained staff, especially at the senior professional levels

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<sup>11</sup> A paper that carries a lot of insight into the problem of monitoring is Mookherjee and Png (1995). The paper studies the optimal incentive arrangement for a bureaucracy in which a pollution inspector must monitor a firm for compliance with pollution regulations. The insights of the model can, however, be applied directly to the monitoring (and auditing) problem in tax administration if the word "compliance" is taken to mean compliance with the tax law instead of with pollution regulations.

(Sedigh and Muganda, 1999).<sup>12</sup> Thus, in practice there are no auditing and control mechanisms in place. The efficiency and effectiveness of monitoring and auditing devices may vary between councils, however, the Kilosa-case probably reflects the situation in many local authorities in Tanzania.

The situation described above for local authorities in Tanzania previously also characterised the central government tax administration.<sup>13</sup> A study of the *Customs Department* in 1996 reports that internal auditing and inspections functions had become for the most part non-operative and ineffective (Cunningham, 1996). For instance, the permanent staff in Customs in early 1996 consisted of only 4 staff at the headquarters level and only 5 in the entire Dar es Salaam zone where approximately 80 percent of all customs revenues in Tanzania are collected. Therefore, the responsibility for internal operational audits had been assumed by external auditors from the Auditor General's (AG) office. However, 6 or 7 auditors from the AG's office was stationed for extended periods at the Customs office, thereby becoming "part of the system and the peer network" to be inspected (Cunningham, 1996:66). This situation eliminated the independence of the auditing units, opened up for *collusion*, and reduced the risk for collectors to participate in fraud.

## **6 Public sector regulations and the tax system**

What impacts do public sector regulations have on the incidence of corruption? Some studies argue that a country characterised by large government involvement is more likely to experience high levels of corruption (Tanzi, 1994). The basic argument is that the more governments intervene in the economy, the more *opportunities* for discretionary interpretation of regulations and allocation of resources by civil servants. However, the public sector is extensive in some of the least corrupt countries such as Denmark, the Netherlands, Norway and Sweden. At the same time corruption seems to have increased in some countries, including China, Russia and Tanzania, that have gone through economic liberalisation and privatised public companies. According to the Commission on Corruption in Tanzania (URT, 1996), economic liberalisation has significantly contributed to increase corruption in the country by facilitating new opportunities for culprits. Thus, empirical evidence indicates that it is not the size of the public sector, but the way the public sector works that are of importance for the level of corruption.

In particular, this seems to be the case in the context of fiscal corruption. For example, the local government tax system in Tanzania is characterised by:

1. An excessive number of different taxes with different rate structures that are difficult for taxpayers to understand.<sup>14</sup>

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<sup>12</sup> According to Sedigh and Muganda (1999:167), the Auditor General's Office has been hindered by financial constraints and its inability to attract, train or keep suitable staff since the private sector is offering more rewarding employment to professionals.

<sup>13</sup> In 1996, the central government tax administration was completely reorganised, and Tanzania Revenue Authority (TRA) was established.

<sup>14</sup> Furthermore, large variations exist between the tax structures of local authorities. In 1997, for instance, there were more than 60 types of revenue sources being levied in Kilosa District Council (Morogoro Region), compared to at least 25 in Kibaha DC (Coastal Region), and about 50 revenue sources in Dar es Salaam City Commission. These figures do, however, not take into account the various sub-groups of particular revenue bases. For instance, in Kilosa DC trade licence and weight and measure fee had 9 components each. In Kibaha DC business licence had 8 components and building inspection fees had 5 main components and 12 sub-groups (including inspection fees for the different components of a building such as foundation, roofing, walls, finishing and occupation). The by-law on hawking and street trading in Kibaha DC from 1991, specifies in detail 38 different components (including licences for bicycle repairs, tyre puncture repairs, shoe shiner, car wash, carpenter, firewood, potato chips seller licenses, etc.). The number of rates applied on individual revenue components are also high.

2. The tax law is written in a confusing way and manuals to consult are often absent, opening up for discretionary powers by tax enforcers.
3. Tax officials have discretion over important decisions, such as those related to the provision of tax exemptions, determination of tax liabilities, selection of audits, litigation, etc..
4. Many administrative procedures, including the procedures for reporting tax revenues, lack transparency and are poorly monitored both within the tax administration and by the Auditor General's Office.
5. Weakness of legal sanctions to enforce punishments on either taxpayers or collectors who do not comply with the law.
6. Most taxes are paid in cash by individuals to tax collectors.

Each of these factors contributes to a non-transparent and complicated tax system, where taxpayers' are left to the discretionary power of collectors. Furthermore, the official wages of tax officials are low (section 4), and acts of corruption are not easily discovered due to inefficient auditing and monitoring (section 5 and 6).

## **7 Bureaucratic and political structures**

### *7.1 Introduction*

What impacts does the institutional set-up of local authorities have on the incidence of corruption? In the principal-agent model discussed in previous sections, we assumed one principal represented by the top level of the local authority (or tax administration), whose objective is to raise a given amount of tax revenue while keeping the social cost of raising revenue at a minimum level (see section 3 above).<sup>15</sup> In other words, we assume a highly principled principal who is representing the public interest (Klitgaard, 1988). Thus, we implicitly assume that the principal is committed to systemic reform, improvements in tax collection efficiency and greater integrity in the local tax administration. Do these assumptions reflect reality? There are (at least) two objections to this assumption. First, there may be several principals involved each with incoherent objectives and interests. Second, the principal may also be corrupt and not acting in the interests of the society but pursuing his own narrow self-interests.

### *7.2 Multiple principals*

Local authorities in Tanzania are characterised by several (multiple) principals. The local tax administration is organised in a three-layer hierarchy: village - ward - council headquarters (see figure 7.1).<sup>16</sup> This institutional structure is characterised by at least three principals at the top level: (i) the administrative leadership (management team) of the local authority, (ii) local politicians and (iii) the central government administration (i.e., Ministry of Local Government). Furthermore, development aid organisations are heavily involved in district development programmes in some local authorities, and may have significant influence there. Independent of each other these principals try to influence the revenue target and, thus, the actions of the tax collectors (the agents). Based on evidence from fieldwork, we present the following propositions about the principals' objectives:<sup>17</sup>

<sup>15</sup> Alternatively, the principal's objective could be to maximise tax revenues subject to the constraints laid by the tax law.

<sup>16</sup> In rural councils, below the village level a additional structure exists named "kitongoji". The corresponding sub-level in urban councils is called "mtaa". The role of these sub-levels with respect to taxation is mainly to mobilise taxpayers.

<sup>17</sup> See Fjeldstad and Semboja (1999) for details.



(i) The objective of *the top management of the local authority* (the administrative leadership) is to generate enough tax revenues to pay the wage bill and allowances of the staff. This target seems to be a minimum performance requirement from the central government, but are, in general, far below the revenue potential.

(ii) The objective of *local politicians* is to get re-elected (and sometimes also to achieve sitting allowances when participating in council meetings). Politicians may say they want an efficient tax administration, - but only to the point at which voters begin complaining that they are being harassed.<sup>18</sup> Fjeldstad and Semboja (1999) find that some councils experience revenue shortfalls in election years. They relate this drop to politicians preaching "voluntary tax payment" and instructing tax collectors "not to harass" taxpayers.

(iii) The objective of the *central government administration*<sup>19</sup> seems somewhat unclear in the context of taxation. However, a short-term objective is that the council generates enough revenues to cover its wage bill. The long-term objective may be to maximise tax revenues subject to the constraints laid by the tax law.

The objective of *donor agencies* in this context seems to be to maximise tax revenues, since this is used as a quantitative indicator of the performance of the councils they are involved in.

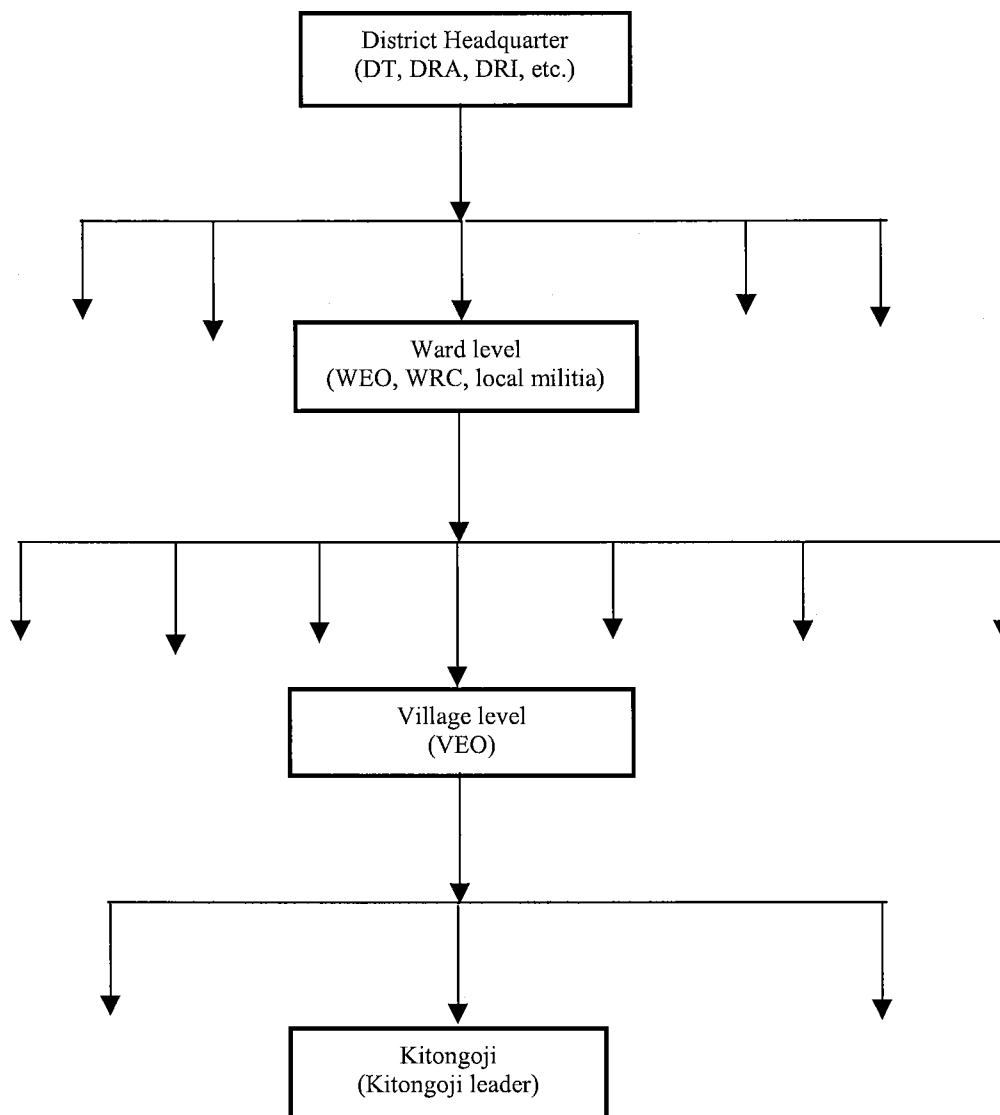
*Social networks* further complicate the picture outlined above. In societies where family-, tribal- and ethnical relations are strong and important, it is expected that civil servants provide services to these. In many local authorities in Tanzania tax collectors at the village and ward levels are recruited from the local communities. Traditional networks may impose heavy constraints on the collector's (the agent's) actions, for instance on who is to be exempted from paying taxes (see section 6). Thus, some clients (taxpayers) may act as principals. This implies that tax collectors can be both agents and clients, depending on circumstances. Once civil servants begin to make distinctions among people they deal with according to the degree of family relationship or friendship, they have abandoned the arm's-length principle (i.e., the principle of objectivity). This principle requires that personal or other relationships should play no role in economic decisions that involve more than one party (see section 2).

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<sup>18</sup> Wilson (1989:174) also discusses the role of politicians in connection with revenue collection.

<sup>19</sup> The Ministry of Regional Administration and Local Government.

**Figure 7.1 The institutional set-up for local government tax collection in Tanzania**



Source: Fjeldstad and Semboja (1999)

1. At the council headquarters the responsibility rests with the council treasury, headed by the District Treasurer (DT). Here, two major groups of staff exist, namely revenue collectors (DRC) and inspectors (DRI). The first is responsible for the revenues collected at the council headquarters and the sub-district levels, i.e., the ward and village levels. The second group forms the inspectorate that is the audit and investigation wing of revenue collection.

2. At the ward levels, the responsibility for tax collection rests with the office of the Ward Executive Officer (WEO). The WEO also handles and order functions at that level. For this purpose the local militia are to their disposal. In larger wards which may possess greater revenue potential there will also be a ward revenue collector (WRC) to spearhead revenue collection in the ward.

3. At the village level, the responsibility rests with the office of the village executive officer (VEO). The VEO is also responsible for village developmental issues. The village executive officers are nominated to their position by the village governments, but appointed and employed by the council. The system of nomination ensures that the VEOs have to come from the villages. Many of the existing VEOs are the previous village CCM (party) secretaries. At the sub-village level the kitongoji leader shall assist in mobilising taxpayers.

The discussion above shows that tax collectors (agents) may receive different and often contradictory messages and expectations from their principals. Empirically, it may prove difficult to test the importance of several principals in the context of fiscal corruption in local authorities. However, what we do observe is that the principals fail to co-ordinate their strategies, either because they do not observe the same variables, or because they cannot commit to collaborate. The effect is severe weakening of the power of the incentive schemes provided to the agents (i.e., the tax collectors). The more the principals' interests diverge, the more room for the agents' discretion, and the less effective monitoring and control of the agents. Thus, by identifying the "principals" involved in setting the target(s) for revenue mobilisation, we may get an indication on the severity of this problem. In addition, this approach may also contribute in explaining why corruption (and collusion) is more pervasive in some organisations than others.<sup>20</sup>

### 7.3 *Corrupt principals*

The political and administrative leaders may themselves be corrupt. Principals may on the one hand take initiatives to curb corruption, while on the other hand being involved in wholesale corruption (Galtung, 1998). For instance, the Tanzanian "Commission on Corruption" (URT, 1996) argues (p. 70) that the greatest source of corruption in the country is the laxity of leadership in overseeing the implementation of established norms. According to the report (p. 11) there is no questioning to the fact that the country's leadership is being accused in acts of corruption: "*Some of the candidates who were associated with corrupt practices have succeeded and are presently Councillors; members of the House of Representatives; and Members of Parliament. Because such leaders got their position through corruption, it is not easy to expect them to be good examples of good leadership*". In general, we will expect corrupt leaders to lower the moral and stigma costs connected with corruption. Furthermore, corrupt principals may to some extent not bother about corruption at lower levels in the public sector. An extreme position taken in this context refers to the late President Mobutu Sese Seko who provided the following advise to Zairian civil servants "*if you want to steal, steal a little in a nice way. But if you steal so much that you become rich overnight, you'll be caught.*"<sup>21</sup> In these circumstances we will expect that the general level of corruption in the institution and/or society is high, and the risk of being involved in corruption to be low.

### 7.4 *The tax administration as a multiprincipal, multitask agency*

The principal-agent-client model of fiscal corruption presented in section 3.2 (see figure 3.1) needs to be extended to account for the roles of all key stakeholders in the tax enforcement process. Fjeldstad and Semboja (1999) argue that there are notable differences between the institutional arrangements of tax collection and tax design in local authorities in Tanzania. However, in practice, the demarcations between the institutional environment of the two distinct activities are not as clear as they might appear (see table 7.1).

Furthermore, the stakeholders involved in local tax design reinforce the variations observed between councils (see section 6). In particular, the emphasis by local politicians on equity considerations has led to a fine-tuning of the tax structure in those councils where politicians have the power to influence tax design. Thus, the present complicated and non-transparent local revenue structure are partly a result of the different interests of the stakeholders involved in tax

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<sup>20</sup> Wilson (1989) and Dixit (1996) provide convincing arguments on the importance of multiple principals to understand incentive problems in organisations.

<sup>21</sup> Quoted from Sandbrook (1986:95).

design, and partly a consequence of the local authorities' and the central government's inability to understand the financial, economic and social implications of the local tax system.

**Table 7.1 The stakeholders' roles in tax design and collection**

The stakeholders	The stakeholders' various roles	Degree of involvement in	
		Tax design	Tax collection
1. District management team (DMT, incl. DT)	P <sub>1</sub> /A <sub>1</sub>	Direct and significant	Direct and significant
2. Local government politicians	P <sub>2</sub> /A <sub>2</sub> /C <sub>2</sub>	Direct, sometimes significant	Indirect (mobilisation), sometimes significant
3. Bureaucrats at the ministry level	P <sub>3</sub>	Direct, in general, insignificant	Indirect
4. Central government politicians	P <sub>4</sub>	Indirect, insignificant	Indirect, sometimes significant
5. Donors	P <sub>5</sub>	Indirect, insignificant	Indirect, sometimes significant
6. Tax collectors at the sub-district level (WEO/WRC and VEO)	A <sub>6</sub> /C <sub>6</sub>	Indirect, in general, insignificant	Direct and significant
7. Taxpayers, incl. social networks	C <sub>7</sub> /P <sub>7</sub>	Indirect, insignificant	Direct, sometimes significant

In table 7.1, P<sub>1</sub> is a principal corresponding to the standard principal-agent model discussed in section 3, with the power to define and influence both its relationship to agents (tax collectors) and clients (taxpayers). However, P<sub>1</sub> (for instance the District Treasurer) can also become an agent (A<sub>2</sub>) by assuming this role illicitly and embezzle tax revenues. Local politicians may act as principals (P<sub>2</sub>) by influencing their relationships to tax collectors and taxpayers, but may also become agents (A<sub>2</sub>) involved in corruption, as well as clients (C<sub>2</sub>) for groups of taxpayers/social networks (P<sub>7</sub>). Correspondingly, tax collectors are agents (A<sub>6</sub>), who in some contexts are clients (C<sub>6</sub>) to taxpayers/social networks (P<sub>7</sub>).

## 8 Empirical findings from Tanzania<sup>22</sup>

Fiscal corruption is extensive in local authorities. It takes many forms and varies by types of taxes, methods of tax collection and location. It cuts across all levels of the local authority, from the village to the district council headquarters (see figure 7.1). The magnitude of corruption in terms of the amounts of money involved seems to rise by the administrative level of the council.

Although many cases of collusion between taxpayers and collectors are reported, the most common type of corruption found is *embezzlement* of revenues by tax collectors (see box 3.1).<sup>23</sup>

<sup>22</sup> This section is based on Fjeldstad and Semboja (1999).

<sup>23</sup> Fjeldstad and Semboja (1999) report several cases of collusion. For instance, in 1995 three Village Executive Officers in Kibaha DC (Bokomnemela village in Soga ward; Mwendapole village in Kibaha ward; and Twendepamoja village in Tumbi ward) were fired due to dubious deals with taxpayers on cashew cess. In this case, no receipts were issued, and TSh 1,000,000 was evaded. The incident was discovered by accident and reported by an official from the District Treasury Office. In Kilosa DC in 1996, 10 ward revenue collectors and seven militiamen were retrenched due to mismanagement of funds.

Embezzlement is the form of tax revenues, which does not accrue to the accounts of local governments, but is siphoned off by tax collectors and administrators (Prud'homme, 1992). This indicates that taxpayers have low bargaining power (section 3.3), as we would expect in a situation where taxpayers' are left to the discretionary powers of collectors and the control (monitoring) of tax collectors is weak. By definition the amount of embezzlement is not recorded.

Embezzlement can be assumed on the basis of five observations:

- the level of wages makes it necessary (section 4);
- the lack of controls makes it possible (section 5);
- the nature of the tax system is a strong inducement to it (section 6); and
- the administrative and political structures undermine the power of incentive schemes (section 7).

Furthermore, the general public has is practice not access to official records on tax revenues and public expenditures.

The mechanisms and scope of corruption in the local tax administrations can be illustrated by a few cases:

Most taxes are collected in the form of cash. The collector is supposed to deliver a receipt of a standard form to the taxpayer, a copy (counterfoil) of which is retained by his superiors to be audited. In principle, the tax collector is required to return the old receipt books showing used counterfoils and unutilised receipts for audit so as to control their use before receiving new ones. In practice, however, this procedure is often not followed. In one local authority, for instance, evidence was found that large numbers of tax receipt counterfoils were not returned to the council headquarters as required by the financial regulations.<sup>24</sup> It is reasonable to assume that the counterfoils not returned are used to embezzle tax revenues. A note from the district chief executive supported this proposition.

For the development levy (a head tax that is one of the major local government tax bases in Tanzania), the amount embezzled in this way in 1995 corresponded to more than 35 percent of the council's actual revenues from the levy. The corresponding figure for 1996 was about 15 percent. It is not possible to estimate the amount embezzled for other categories of taxes such as crop cess, livestock cess and market fees, since the receipts issued will vary from one transaction to the other, depending on the specific tax item, rates and units. However, for 1995 more than 30 percent of the receipt books issued for such taxes were not returned.<sup>25</sup>

Thus, in practice, these receipts are often not available (by neglect or purpose), and when they are utilised, they can easily be modified. One well-known method of stealing money paid in by taxpayers is through the use of *the carbon shipping system* (see, for instance, URT, 1996:318; and TCCIA, 1995). The taxpayer is given a receipt showing the amount paid. Since no carbon paper is put under the original receipt in the process of writing, the collector later enters a lesser figure on the copy and pockets the difference. Another method used by collectors is to write receipts noting a lower amount than the amount paid by the taxpayer. Collectors may use this

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<sup>24</sup> In this particular council, in total, 771 receipt books were not returned in the period 6 January 1995 to 26 February 1997. The number of receipts in each book varied from 50 to 150, depending on the type of tax.

<sup>25</sup> A large number of the missing books were issued to the District Revenue Inspector (DRI) and the District Accountant (DRA), both based at the district headquarter. The DRI is responsible for controlling and inspecting collectors at lower levels. In the two-year period from January 1995, the DRI had not returned 126 receipt books. The corresponding figure for the DRA was 114 books. They continued to receive new receipt books in spite of the fact of not having returned previously issued books.

method when dealing with taxpayers that cannot read or write. In other cases, the carbon paper is placed in such a way that the counterfeit only registers a part of the figure on the taxpayer's receipt, for instance, omitting some zeros.

In another case, which we followed over a period of three months in 1997, evidence was found that only a small share of the maize cess collected at a maize market actually was reported to the council. Maize is the major cessable crop in this council. Sellers and buyers meet at a designated area close to the main road allocated to this purpose. The cess is collected by the ward officers (see figure 7.1) from the buyers at the market area. According to the collectors, the maize cess is easy to collect. By comparing the amount of cess collected, with the revenues reported in the accounts of the district treasury for the same period, we found that less than 5 percent of the cess was actually reported, or to put it differently more than 95 percent of the revenues were embezzled.<sup>26</sup>

Embezzlement may also take place through collusion between staff of the council's treasury department and bank officials, leading to the non-banking of tax revenues. Recently, one such case was brought to court, involving several staff members of the council's revenue department. The amount embezzled in this specific case during the first 6 months of 1997, corresponded to 10 percent of the total revenues reported to the council treasury in 1996. In early 1998, the Controller and Auditor General uncovered cases from 31 councils where cashbook-receipts were not reflected in the bank statements (see appendix 2). This kind of corruption is carried out in collaboration with bank officials who issue a receipt on the correct amount to the treasury official. The receipt is brought back to the council revenue office for control, and is consistent with the money remitted. However, only a part of the tax revenues is actually deposited into the council's account. The rest is shared between the bank officials and the collectors involved. This method may be sustained over time since what actually is deposited in the council's bank account is rarely controlled.<sup>27</sup>

We should, of course, be cautious when generalising on the basis of the cases referred to above. They are specific for the councils studied. However, a survey of newspaper articles on corruption in local authorities (appendix 2)<sup>28</sup> and other surveys indicate that corruption is an extensive problem.<sup>29</sup> Furthermore, embezzlement seems to be the major form of corruption.

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<sup>26</sup> During the visits to the market, the number of maize bags loaded on to lorries and the presence of the collectors were recorded. In 1997, the cess was TSh 200 per bag à 100 kg.

<sup>27</sup> In the case referred to above, the embezzlement-network was revealed when a new treasurer took over and started internal controls.

<sup>28</sup> The survey covers the period March 1998 to January 1999. To collect this information we engaged a person to read through as many Tanzanian newspapers as possible (both daily and weekly newspapers, in English and Swahili). Due to other obligations some newspapers were not read in periods. Thus, it is fair to say that the newspaper reports provide a picture of the situation, although they most likely underestimate the extent of corruption revealed.

<sup>29</sup> For instance, one survey investigated the extent of corruption in public services (CIETInternational, 1996). The survey was undertaken in 40 communities in 10 district councils in Tanzania. A questionnaire covering 120 households in each site was carried out. In addition, key informants were interviewed and focus group discussions about experiences of corruption in public services were held. The survey confirmed the widely held belief that corruption is common in the delivery of police, judiciary, revenue and lands services. The survey data indicated that around a third of recent users of the four services had to pay, on request from the civil servant, a bribe in order to get service. Long delays in service were reported, together with lack of useful information about the service. Such payments are often referred to as "kitu kidogo" ("something small") or "chai" ("tea money"), or sometimes "lunch allowances" or were said to be for "stationary to open the file". The "cheapest" service was the police, and the most expensive one the lands service. Furthermore, 153 civil servants employed in the four services in 10 district councils were interviewed. They were asked for their views about the level of corruption in public services. More than half of them (57 percent) thought there was "very much" corruption in public services. This proportion corresponds to the Tanzania average of 60 percent of the surveyed households who thought corruption in public services was "very much". About two thirds of the civil servants interviewed thought corruption had worsened in the last five years.

Prolonged embezzlement of large amounts of tax revenues requires the involvement of relevant senior officials from the councils' headquarters. In one council evidence was found of a corruption network involving the head of district treasury, the district revenue inspectors, the district accountant and ward executive officers. The prolonged existence and performance of such corruption networks requires that:

- (i) the tax collectors and tax inspectors are stationed relatively permanently in their positions, i.e., they are rarely transferred;
- (ii) the network is limited to a relatively small number of people in the tax administration; and
- (iii) taxpayers are not directly involved.

The exclusion of taxpayers from the embezzlement corruption network is possible because the tax collectors may provide genuine receipts to taxpayers on taxes paid. In some cases two sets of similar receipt books are used.<sup>30</sup>

### **9 How corruption may corrupt**

Why do corruption levels vary across local authorities? The principal-agent-client approach presented in previous sections may contribute to explain some of the fundamental incentive problems that arise due to imperfect information. However, it has (at least) two limitations: First, in situations where the tax bases, the collection and auditing devices are apparently similar, as is the case in many councils in Tanzania, how do we explain the observed variations in corruption levels between councils? Second, the actual levels of audit and penalty rates if detected are set at such low levels or are almost non-existent, that, following the standard approach we would expect that most tax collectors would be corrupt if they pursued their self-interests in a rational (consistent) manner, because of the low probability of being detected and penalised. It seems that while the odds are heavily in favour of collectors getting away with it, surprisingly many behave honestly. It therefore appears that there is some discrepancy between the way in which tax collectors actually decide to report tax revenues collected and the models that have been used by economists to explain this behaviour.

One possible explanation why different corruption levels may arise is that "corruption corrupts". Thus, the expected profitability of engaging in a fraudulent transaction compared to not engaging in it hinges upon the number of other people doing it. In other words, the compliance of each depends on the compliance of others.<sup>31</sup> Therefore, similar incentive systems (and institutions) may lead to different levels of corruption. Differences in the corruption levels of tax departments in various local authorities may be explained by them having settled in various "equilibria", for instance a "high-corruption" equilibrium and a "low-corruption" equilibrium. An equilibrium is established where the individual actor has no incentive to change his behaviour.

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<sup>30</sup> While embezzlement seems to be the major mechanism of fiscal corruption in local authorities in Tanzania, collusion between taxpayers (importers) and collectors seems to be the major mechanism in Customs. Fjeldstad (1999) argues that this has to do with the bargaining power between importers and customs officials, and their mutual interest in maintaining long term relations (see section 3.3).

<sup>31</sup> In principle, this can be interpreted as a collective action problem, in the way that the individual's decision is dependent on the actions of others.

The basic idea used by economists to explain variations in corruption levels is illustrated in figure 9.1 (see Andvig and Moene, 1990; Andvig, 1993; and Bardhan, 1997).<sup>32</sup> The number of corrupt tax collectors is measured from left to right along the horizontal axis of the diagram. Each point along the horizontal axis indicates a given distribution of tax collectors between the corrupt and non-corrupt category. The payoff (profit or “utility”) of the transaction is measured along the vertical axis. Non-economic variables such as feeling of guilt, fear of loss of reputation (stigma) or actual punishment are incorporated into the tax collector's payoff (utility) function. The two lines *Corrupt* and *Honest* then describe the payoff for a potential corrupt, respectively honest collector for all possible allocations of the remaining ones between the two categories. The *Honest* curve is falling throughout the whole area, reflecting the payoff for a completely honest tax collector in a tax administration with increasing corruption. The payoff for an honest collector is larger than the payoff for a corrupt one when the number of corrupt collectors is low (to the left of point B). The *Corrupt*-curve has a turning point in D: As the number of corrupt collectors is rising, corruption becomes less scarce and bribe-paying taxpayers may only be willing to pay a lesser bribe for a given corrupt favour (to the right of point D).<sup>33</sup> Furthermore, the way the figure is drawn assumes that corruption has negative welfare consequences in the sense that everybody is better off in A than in C (although corruption may increase welfare in a restricted area of corruption levels).

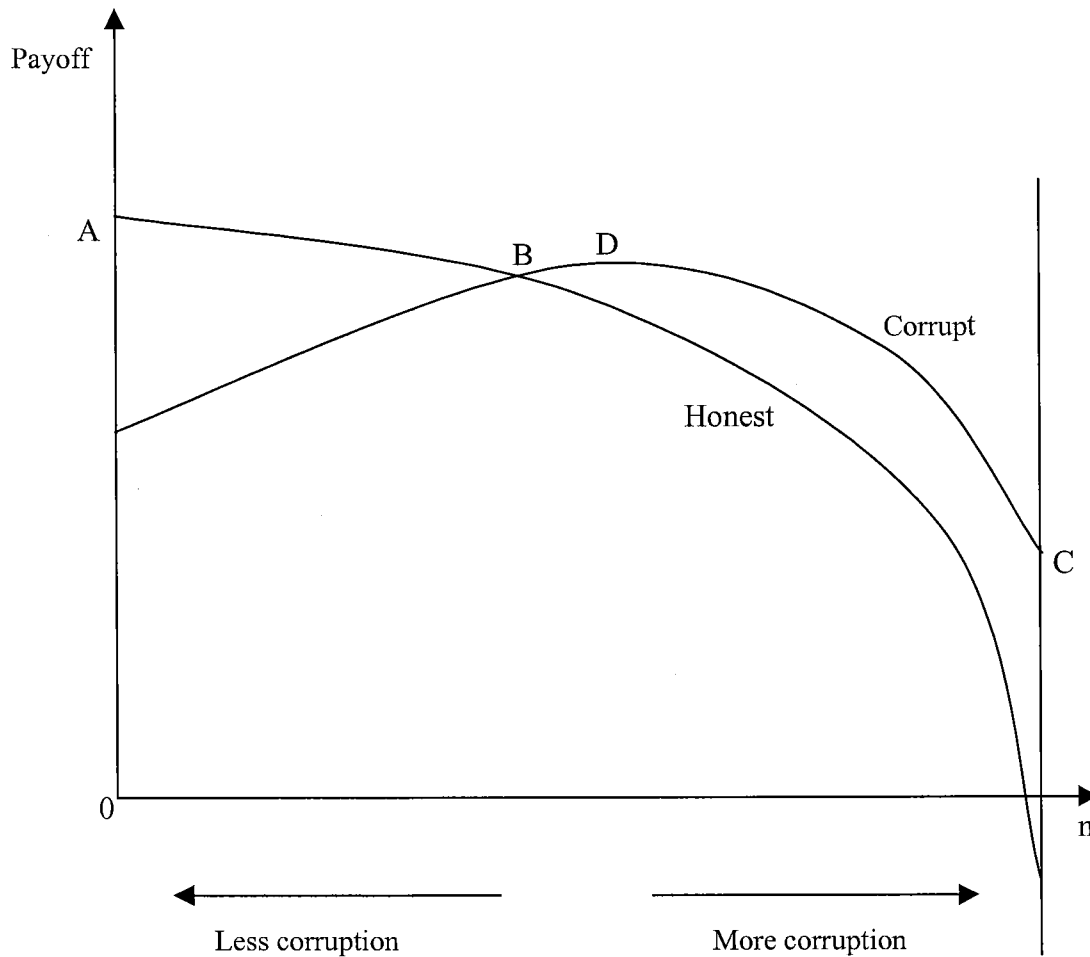
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<sup>32</sup>This figure is often referred to as a Schelling diagram (Schelling, 1973:388).

<sup>33</sup>The “Corrupt curve” in figure 9 refers to a situation with collusion between taxpayers and collectors (i.e., bribery). However, in cases where embezzlement of tax revenues by collectors are the most common type of corruption (see section 8), the curve may have a different form. Nevertheless, it is reasonable to assume that the Corrupt curve still has a turning point (such as D) since the amount embezzled per tax collector (and, thus, the payoff) will be less the larger the number of corrupt officials involved.



*Figure 9.1. Multiple corruption equilibria*



Source: Andvig (1993)

In the figure, the payoff for the potential corrupt tax collector (*Corrupt*) increases throughout the area to the left of point D. There are at least three arguments supporting an increasing *Corrupt-curve*:

1. Eventual internalised moral feelings of guilt by fraudulent behaviour decrease as the number of corrupt tax officials increases.
2. When many others are involved in corruption, the loss of reputation (stigma) for each collector when discovered is likely to decrease.
3. When many others are corrupt, this lowers the probability of being revealed, due to the fact that the capacity of internal and external investigation units may be strained.

There are three equilibrium points in the figure: A, B and C. Why are these equilibria? At A all are honest, and will prefer to stay that way since their utility levels are above that of any tax

collector who tries the corrupt option. Hence, the tax administration will stay in the "clean" position. At C all are corrupt since it will not "pay" to be honest. At B, any given tax collector is indifferent between the corrupt and the non-corrupt strategy. The major difference between these equilibria is that A and C are stable, while B is unstable. The reason why B is unstable is that if one more person is becoming corrupt, then it will pay to become corrupt. However, if only one less person is corrupt, the last collector will choose to become non-corrupt too. Thus, if the tax administration starts out with higher corruption levels than B (for some historical reason), it will move towards the stable high equilibrium level at point C. However, if it starts off with a lower level than B it will end up at point A.

This theoretical approach may thus contribute in explaining several observed phenomena of corruption in local authorities:

- We may observe widely different levels of corruption with the same tax structure, collection system, monitoring and auditing mechanisms.
- Small changes in the number of corrupt agents may have huge effects on the corruption level if tax administration initially is located at a point close to B: If a short-lived, but strong anti-corruption campaign is able to move the tax administration from C and beyond B the administration will move by its own momentum to A. For instance, corruption in some local authorities has been significantly reduced after the arrival of new district treasurers who have sacked or retrenched corrupt collectors. However, if B is close to A, small shocks may be sufficient to make the administration slide down into a high corruption level trap. Therefore, although the tax administration may be close to a "clean" point, one should still take corruption seriously.

It is problematic to test empirically the relevance of the model discussed above. However, the major objective of the ongoing anti-corruption campaign in Tanzania (see appendix 1) is to shift the administrative equilibrium from a high-corruption to a low-corruption equilibrium.

### ***10 Policy implications for fighting fiscal corruption***

Corruption is a symptom of deep-seated economic, political and institutional weaknesses. Consequently, to curb fiscal corruption it is essential to focus on its causes and rationale. Emphasis should therefore be placed on preventive measures that contribute to reduce the opportunities for and payoffs of corruption. Relevant measures would include economic, political and institutional reforms, including reforms of the incentive schemes in the tax administration.

The principal-agent-client theory framework that we have used as our analytical point of departure elucidates some major incentive problems in tax administration: In general, we will expect that tax collectors (agents) with an inclination to behave dishonestly will do so with even greater ease when they enjoy conferred monopoly power over taxpayers that can be exercised without challenge, a high degree of discretion, and limited accountability to the principal. By the same token, the taxpayers (clients) may be willing to pay bribes to reduce their tax liabilities. In real life the principal (government or treasury) cannot tell how much of the outcomes of tax collection it observes are due to the tax collector's (agent's) activities on his behalf. After all, the collector has incentives to mislead the principal into thinking he is working only on productive activities, never on corrupt ones.

On this basis, the literature on bureaucratic performance suggests a cluster of policy measures

to fight corruption, all of which rest on the assumption that the principal's objective is to reduce corruption (Klitgaard, 1988; Mookherjee, 1997; Rauch and Evans, 1997). These measures include reforms in incentive systems and organisational procedures:

1. Establish recruitment criteria for the staff that emphasise competence (merit) to reduce the problems of *adverse selection* (section 3.2).
2. Change the disposition of rewards and penalties facing both the tax collector and the taxpayer, to reduce the problems of *moral hazard* (section 3.2). Relevant measures for tax collectors are schemes for internal promotion based on merit and career stability. Performance related pay-schemes might also be considered. However, it is important to stress that wage incentives (section 4) will only function in combination with other measures, including credible policies of monitoring and punishment (section 5). Penalties of tax officials detected in corruption may include confiscation of incomes, property and wealth.
3. Invest in information systems that increase the likelihood that fraudulent activities will be detected and punished. To increase the accountability of tax officials, measures may be introduced that require them to report their wealth annually to an independent body.
4. Institute administrative and organisational reforms that will reduce the agent's discretionary authority (section 6). Emphasis should be placed on tax reforms to create a simple, non-discretionary tax system with moderate, uniform taxes, combined with the removal of exemptions. Job-rotation for tax officials should be considered to prevent collusion between taxpayers and collectors. In general, direct contact between collectors and taxpayers should be minimised.
5. Adopt measures and programmes designed to modify the agent's attitudes toward fraudulent behaviour over time. Such measures should aim at increasing the moral and stigma costs connected to corruption (see section 5).

The list of areas of action includes both short- and long-term policy measures. Altering rewards and penalties, raising the probability of detection, and introducing administrative modifications all contain elements that could be considered for relatively quick action. On the other hand, changing the composition of staff, reforming the organisation, and conditioning attitudes toward corruption are medium to long-term measures. It is, however, important to consider the tradeoffs between what is feasible and credible over time.

Furthermore, the previous analysis has pointed to some major weaknesses of the standard principal-agent approach to analysing fiscal corruption:

- Individual actors, for instance tax collectors, rarely operate in isolation (section 9).
- Several (multiple) principals with divergent objectives may seek to influence tax enforcement (section 7).
- The individual stakeholders involved in the tax enforcement process may play different roles depending on their various relations to other stakeholders (section 7).
- The principal(s) may be corrupt (section 7).

One result that can be drawn from the previous analysis, is that it may be dangerous to draw conclusions from models that treat the individual actor as someone whose decisions are taken in splendid isolation. For instance, in a world of interacting tax collectors gradualist anti-corruption policies may be extremely ineffective if an "everyone is corrupt" norm has become established in the society. The more widespread the knowledge that others are behaving dishonestly, the more one may expect non-compliance to increase. Thus, publicity indicating

extensive corruption in the institution or society may sometimes have effects contrary to what is intended. If it becomes evident that the government either is not effective in its application of sanctions or is practising favouritism toward special interests, one will expect cynicism as well as corruption to increase.<sup>34</sup>

Thus, one means available to the government for promoting "voluntary" compliance may then be to co-ordinate the administrative staff by providing information and assurances that others are in fact co-operating. Most importantly, the government must co-ordinate sanctions in such a way that the potentially compliant officials are convinced that sanctions can and will be directed at the others. Even when people prefer to behave honestly, they still require assurances that others are also complying. Otherwise they will feel "cheated" and may reconsider their own willingness to contribute (Levi, 1988).

One potentially important channel to fight fiscal corruption at the local level is to inform the general public as to what constitutes corruption (Kisubi, 1999). This may contribute to reducing the public tolerance of corruption and encouraging citizens to actively report and provide evidence of corruption. By giving people access to the facts that affect their welfare, public servants may think twice about breaking their trust. Increased transparency and focus on corruption may thereby reduce the incidence of corruption.<sup>35</sup> Grassroots "watchdog" organisations may play an important role in this context. However, as noted above, if nothing is done in practice to curb corruption in spite of increased information this may lead to increased frustration and cynicism among the general public.

Consequently, the successful implementation of anti-corruption efforts requires political will and commitment at the highest levels of government (Riley, 1998). When the level of corruption is high and nothing is done to punish corrupt leaders, public confidence in the political and administrative leadership is undermined. Corrupt leaders may also contribute to reduce the stigma costs of corruption and "legitimise" lower level corruption. Thus, there is a need to clean up the leadership ranks in order to restore respect. Hence, the Tanzanian Commission on Corruption (URT, 1996) argues that "*it is obvious that if we want to rid ourselves of corruption, we must begin by cleaning the top leadership ranks*".

The analysis provides us with some directions for future research. In improving our understanding of the mechanisms behind fiscal corruption, there is a need to identify and account for the roles of all key stakeholders involved in the process of tax enforcement – the principals, their agents and the clients. This also includes an examination of the relationship between the various stakeholders. In particular, we know little about the roles of civil organisations and international aid agencies in this context, although initiatives to curb fiscal corruption sometimes are taken by each of these stakeholders. Furthermore, a crucial question is: Why has so many anti-corruption campaigns not succeeded? By answering this question we might be able to identify the necessary criteria for sustainable corruption control.

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<sup>34</sup> Gunnar Myrdal (1968) quotes the Indian Prime Minister who once said: "Merely shouting from the roofs that everybody is corrupt creates an atmosphere of corruption. People feel they live in a climate of corruption and they get corrupted themselves."

<sup>35</sup> In the Indian state of Rajasthan, for instance, a people's group holds public hearings on how money is spent by village governments, comparing official documents with work actually performed (*The Economist*, 16 January 1999:19). One such meeting in 1998 turned up records of some USD 1000 – much money to the village – having been spent on construction of canals that in fact had never been built. However, the Rajasthanis could call their leaders to account only because the villagers had access to official records.

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## **Appendix 1: The Warioba Report**

### **CORRUPTION IN TANZANIA**

Some findings of the "Commission on Corruption"

(URT, 1996)

#### **I. Historical efforts to fight corruption:**

- 1958: The colonial Anti-Corruption Law
- 1971: Extension of The Anti-Corruption Law  
(investigation of people being suspected of acquiring property through corruption).
- 1975: Establishing the Anti-Corruption Unit.
- 1983: Countrywide Governmental campaign against "economic saboteurs"  
(including corrupt lower and middle grade government and parastatal employees).
- 1995: The Law of Leadership Ethics  
(specifies ethical standards required to be adhered to by public leaders; establishes a secretariat under the Ethics Commissioner with capacity to investigate the conduct of leaders).
- 1996: The Commission on Corruption  
Chaired by *Joseph Warioba* (appointed in January, presented the report to the President in December).

#### **II. Two major forms of corruption:**

**Petty corruption:** Includes those who receive bribes because of their low incomes and standard of living. What they receive only helps them make ends meet.

**Grand corruption:** Involving high level leaders and public servants whose involvement in corruptive practices is a result of excessive greed for wealth accumulation and money. These are people whose earnings are adequate to meet their basic needs and they have enough property and money.



### **III. Reasons for growth and expansion of corruption:**

**The 1970's:** *Expansion of the public sector, Government heavily involved in planning, regulating and running the economy ("African socialism").*

Corruption was caused by the following:

- (a) Implementation problems of Laws and Regulations.
- (b) Administrative laxity and lack of Accountability.
- (c) Lengthy and difficult procedures of obtaining public service.
- (d) Scarcity of essential commodities.
- (e) Low salaries coupled with rising cost of living before and after retirement.
- (f) Uncertainty over one's future.
- (g) Lack of "political will".
- (e) Managerial weaknesses of state organs.

**The 1990's:** *Liberalisation and deregulation, changes in political and social philosophy of the country.*

Corruption is caused and characterised by the following:

- (a) Closeness between businessmen and political leaders.
- (b) Lack of transparency in the economy.
- (c) Appointment of corrupt leaders.
- (d) Erosion of the integrity of leaders.
- (e) The emergency of competition in conspicuous consumption.
- (f) Changes in the country's democratic structure (multi-party system).

### **III. Recommendations:**

1. *Reducing the size of the public sector, and, thus, reducing its operating costs.*
2. *Increasing salaries of public sector employees (also rising the pension schemes).*

**Comment:** Aims at reducing the problem of moral hazard through wage incentives (improving efforts by increasing the opportunity costs of being sacked due to poor performance).

3. *Restoring the offices of the Auditor General and the Controller.*

**Comment:** Improved monitoring to increase the risks of being detected for illicit behaviour.

4. *Establishing new routines for recruiting junior staff to remove the present practice of "favouritism of relatives, friends and corruption [that] have ruled the day.*

**Comment:** To reduce the problem of adverse selection (more focus on formal qualifications and advertising all vacancies).

5. *Providing sufficient working tools and equipment for Government employees.*

**Comment:** To improve administrative efficiency and plug the loopholes for corruption.

### **V. Conclusions:**

*"There is no questioning the fact that the country's leadership is being accused of being involved in acts of corruption. There is an urgent need to take stern action to clean up the leadership ranks in order to restore respect and public confidence in the leadership" (p. 11).*

*"The Commission believe that in order to fight corruption, we must begin with the leadership" (p. 19).*

**Appendix 2: Some Alleged Cases of Corruption at Local Government Level in Tanzania**

(March 1998 to January 1999)

Case	Date	Source	Issue	Location	Amount alleged
1	March 11, 1998	Guardian	Kisarawe DC education officers arrested over 49.4m/= theft. Funds earmarked for materials	Kisarawe	49.4m/=
2	March 20, 1998	Daily News	Councils misuse 3.5bn/= during 1993 to 1996 [Auditor General]	Sixty four councils	3.5bn/=
3	March 21, 1998	Daily News	1.6b/= imprest, salary advances not retired between 1993 and 1996	30 local authorities	1.6b/=
4	March 23, 1998	Daily News	Dar es Salaam City Commission loses 581.4m/= from revenue collected between June 1996 and November 1997	DCC	581m/=
5	March 23, 1998	Daily News	1bn/= cash book receipts not reflected in Bank statements [Auditor General]	31 local authorities	1.1bn/=
6	March 24, 1998	Daily News	Council in Dubious 50m/= road deal	Sumbawanga DC	50m/=
7	March 29, 1998	Sunday News	20 Councils fail to remit 445m/= deducted from staff salaries (1995 and 1996) for Local authorities Provident fund (LAPF), NIC, OTTU & WADU	Various councils	445m/=
8	April 1, 1998	Daily News	6.2m/= pay for teachers disappears from cashiers office	Arusha	6.2m/=
9	April 18, 1998	Daily News	District councils fail to remit 4.4b/= to LAPF	Various Councils	4.4b/=
10	May 21, 1998	Daily News	Iringa farmer complained being charged 1,000/= per head as cattle fee.	Iringa	650,000/=
11	June 1, 1998	Guardian	WEO arrested for having fake receipts	Nzega, Tabora	55,000,-
12	June 29, 1998	Guardian	Village Executive Officers arrested for stealing 947,000/=	Kagera Region	947,000/=
13	July 2, 1998	Daily News	Bandits wound three, steal 20m/=	Moshi MC	20m/=
14	July 3, 1998	Mtanzania	DCC officials arrested on charges of bribery	DCC	-
15	July 10, 1998	The African	City denies corruption in resettlement scheme	DCC	-
16	July 14, 1998	Nipashe	Residents demand accounting for council revenues and expenditures	Korogwe DC	-
17	July 27, 1998	Majira	The Masai demand accounting for development levy	Muheza DC	-
18	July 31, 1998	-	Village chairman alleged to have misused village funds	Mbarali DC	-
19	Aug. 1, 1998	Majira	WEO is alleged to have stolen 871,000/=	Nzega DC	871,000/=
20	Aug. 10, 1998	Majira	WEO sentenced to five years imprisonment for failing to surrender receipt books	Karatu TC	1m/=
21	Aug. 14, 1998	Majira	Councillor alleged to have misused (donor) women funds	Arumeru DC	4.2m/=
22	Aug. 26, 1998	Nipashe	Police asked to investigate village chairman over alleged misuse of public property	Gairo DC	-
23	Aug. 28, 1998	Daily News	Mismanagement of funds irks the Vice President	Handeni DC	-
24	Aug. 29, 1998	Mtanzania	Municipal Director fired over misuse of funds	Zanzibar MC	-

25	Aug. 29, 1998	Mfanyakazi	31.4m/= misused up to December 1995	Bukoba MC	31.4m/=
26	Sept. 6, 1998	Mtanzania	Division Secretary loses 600,000/= development levy collections	Songea Rural	600,000/=
27	Sept. 8, 1998	Nipashe	DCC sends auditors to audit Olympio Primary School accounts	DCC	-
28	Sept. 10, 1998	The Guardian	Probe team suspended for unavailing misuse of funds	Kahama DC	1.6m/=
29	Sept. 11, 1998	Majira	Councillors arrested for alleged misuse of funds	Arueru DC	-
30	Sept. 12, 1998	Uhuru	Arrested for allegedly stealing staff salaries	Bukoba Rural	5.8m/=
31	Sept. 19, 1998	Nipashe	Villagers demand accounts for village govt. activities since 1992	Moshi Rural	-
32	Sept. 20, 1998	Taifa Letu	Headteacher alleged to misuse parents contributions	DCC	-
33	Sept. 24, 1998	Daily News	District Council gives deadline to village government leaders to refund misappropriated funds	Handeni DC	430,000/=
34	Sept. 30, 1998	The African	3bn/= cess feared embezzled [Auditor General]	Various	3bn/=
35	Oct. 3, 1998	Uhuru	DCC officers alleged to demand bribery	DCC	-
36	Oct. 13, 1998	Nipashe	WEO arrested over revenue 2.6m/= loss	Kongwa DC	2.6m/=
37	Oct. 15, 1998	Nipashe	Council loses money through unfaithful WEO	Maswa DC	-
38	Oct. 21, 1998	The Guardian	Kongwa leaders quizzed over desk fund	Kongwa DC	3m/=
39	Oct. 31, 1998	The African	Simanjoro Council misuses 8m/= teachers contributions	Simanjoro DC	8m/=
40	Nov. 13, 1998	Alasiri	WEO disappears with Development Levy collections	Bagamoyo	78,000/=
41	Nov. 17, 1998	Nipashe	WEO fired over theft	Kahama DC	-
42	Nov. 23, 1998	Nipashe	DCC misuses 1.7b/n/= earmarked for roads rehabilitation	DCC	1.7bn/=
43	Nov. 23, 1998	Nipashe	VEOs demand bribes from businessmen	Dodoma Rural DC	-
44	Dec. 1, 1998	The African	Tax collectors accused of cheating: they carry two sets of receipts	Coast Region	-
45	Dec. 27, 1998	Taifa Letu	Temeke education office alleged to have misused school (parents) contributions	DCC	-
46	Dec. 28, 1998	Guardian	Municipal officials swindling millions from parks, game reserves	Various	-
47	Dec. 30, 1998	Majira	Rungwe DC fires District Treasurer on misuse of funds	Rungwe DC	14m/=
48	Dec. 30, 1998	The African	City Commissioner orders teachers to account for parents contributions	DCC	-
49	Dec. 30, 1998	Mtanzania	WEO sent to court over 2.9m/= theft	Songea DC	2.9m/=
50	Jan. 29, 1999	Uhuru	Councillor required to explain expenditure of 3m/= earmarked for roads rehabilitation	Sumbawanga TC	3m/=
51	Jan. 29, 1999	Mtanzania	Musoma MC misuses 2.1m/= earmarked for retirees, deceased and x-employees	Musoma MC	2.1m/=
52	-	-	Urambo Councillor arrested over 11.4m/= robbery	Urambo DC	11.4m/=
53	-	Daily News	Officials sacked over alleged embezzlement	Sengerema DC	6.7m/=

Source: Fjeldstad and Semboja (1999)