

# Not business as usual: The development of Tanzanian Diversified Business Groups (DBGs) under different regimes of capitalist accumulation

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## Acronyms and abbreviations

CCM	Chama Cha Mapinduzi
CET	Common External Tariff
DBG	Diversified Business Groups
EAC	East African Community
LART	Loans and Advances Realization Trust
MNC	Multinational corporations
NDC	National Development Corporation
PPSRC	Presidential Parastatal Sector Reform Commission
RCA	Regime of capitalist accumulation
SOE	State-owned enterprise

## Executive summary

This paper is the first comprehensive study of Tanzanian Diversified Business Groups (DBGs) – conglomerates that encompass a variety of inter-linked, market-based economic activities, which are organised to complement the overall operation of an entire business. DBGs can serve as an important vehicle for industrialisation in developing countries, with their enhanced diversification capacity having often overshadowed other private-sector activities. The ability of these groups to instrumentalise rents towards productive and unproductive activities ultimately determines their contribution towards economic growth.

Based on a combination of primary fieldwork and secondary research using quantitative and qualitative research methods, we analyse the history and contemporary structure of leading DBGs, with a view to better understanding the dynamics of state–business relations in Tanzania. Combining three strands of literature – including theories of DBG diversification, political settlements and regulation theory – this paper offers a novel analysis of DBGs in developing countries by focusing on ‘Regimes of Capitalist Accumulation’ (RCAs).

RCAs periodise the evolution of different DBGs by embedding the traditional concept of the theory of the firm in political economy contexts. In effect, RCAs offer an analytical lens to study private-sector accumulation and raise important questions about the conditions which can lead to efficient and inefficient rent allocation.

DBGs can serve as an important vehicle for industrialisation in developing countries. Their enhanced diversification capacity often overshadows other private sector activities. The ability of these groups to instrumentalise rents towards productive and unproductive activities ultimately determines their contribution towards economic growth. The relationship between RCAs and a DBG’s effective utilisation of rents is captured in the concept of ‘organisational integration of rents’. In short, this integration encapsulates the nature of businesses in being simply rent-driven and/or reinvesting rents in a portfolio of businesses which then respond to different market incentives.

By focusing on DBGs and their various paths towards rent absorption, this paper complements other sectoral research by the SOAS Anti-Corruption Evidence (ACE) programme. It identifies the potential of the private sector as an enabler of structural change as well as an obstacle towards efficient industrialisation. The paper also offers a framework for analysing the evolution and transformation of DBGs in developing countries in the context of late industrialisation, which is markedly different from the experiences of many developed countries.

# 1. Introduction

Diversified Business Groups (DBGs) and conglomerates are widespread organisational forms of production that have played a key role in processes of capitalist accumulation among both early and late industrialisers. These business groups encompass a variety of inter-linked, market-based economic activities, which are organised to complement the overall operation of the entire business. Complementarity operates in different ways, from leveraging financial resources and reallocating internally generated profits, to developing upstream and downstream activities, 'internal markets' and services along several value chains.

A DBG's operation, productive capacity and ability to innovate, in essence, in a manner which is greater than the sum of its parts, is contingent on a variety of contextual factors. Yet even within the same political economy context, different business group models may emerge. While the experience of conglomerates such as *keiretsu* and *chaebols*<sup>1</sup> have been widely studied in the context of late industrialisation in East Asia, little is known about conglomerates and DBGs in Africa, their emergence and different patterns and models of capitalist accumulation.

This paper focuses on the emergence and evolution of Tanzania's DBGs in particular, within a specific framing called 'regimes of capitalist accumulation' (RCA). These regimes identify different sets of policies and institutions – and the underlying semi-stable rent structures and processes – which have allowed groups to initiate their businesses in the early stages of industrialisation and, over time, to consolidate their operations and diversify in related and unrelated sectors. RCAs are country- and historically specific, and the different set of policies and institutions reflect the overall distribution of organisational power – a country's 'political settlement'. These regimes have not only enabled DBGs to have precedence over other businesses as 'market makers' and 'rents extractors', they also continue to define the contemporary characteristics and distinct business models of DBGs.

Within the RCA framework, and drawing on extensive field work and engagements with the business community in Tanzania, the paper draws stylised facts on the experience of DBGs and points to policy strategies for steering DBGs towards more productive use of rents. Specifically, we focus on how DBGs have been responding, shaping and adapting to different RCAs and the productive and unproductive use they have made of rents over time.

Understanding how different combinations of policies and institutions might result in a 'rents structure' – and thus more or less aligned set of incentives – which can (or not) lead to

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<sup>1</sup> Keiretsu is a Japanese term referring to a business network made up of different companies, including manufacturers, supply chain partners, distributors, and occasionally financiers. Companies have close relationships and sometimes take small equity stakes in each other, all the while remaining operationally independent. Chaebol is a Korean term referring to large industrial conglomerate that are run and controlled by an owner or family in South Korea. These structures are owned, controlled, and/or managed by the same family, generally that of the group's founder.

productive use of rents is critical in the analysis of processes of capitalist accumulation and how they contribute to improved development outcomes. And the relevance of tracking such developments in Africa is important for a number of reasons. First, the literature on capitalist accumulation and institutional effectiveness in relation to rent-seeking practices has been focused largely on the role of the public sector and, in some instances, on the intersection between the public and private sector, but it misses how industrialisation led by business groups has evolved as a series of productive and unproductive rents. Second, analysis of business groups in Africa – especially major (non-public) business groups and conglomerates – has often been side-lined, apart from within management literature. Third, state-constraining rules violation can be reduced only to the extent that horizontal enforcement of policies is aligned with and complements the vertical enforcement of a rule of law. Understanding how business groups develop helps in designing politically feasible policies which are less vulnerable to unproductive rents capture and which deliver development outcomes.

The remainder of the paper is structured as follows. Section 2 reviews the literature on conglomerates and DBGs and identifies a set of limitations for the study of their development. Section 3 introduces the RCA framework, while Section 4 applies the framework to the Tanzania country case. We identify four RCAs in Sections 5 and assess the evolution of major business groups in response to changes in rents structure. Section 6 concludes by distilling lessons for effective and feasible policies to promote private-sector development in adverse country contexts.

## 2. Literature review

The recent attention towards indigenous businesses, DBGs and conglomerates in Africa is a promising avenue of scholarship, especially in its interdisciplinary approach towards political economy, strategic management and corporate governance (Brautigam et Al., 2002; Pitcher 2017; George, 2015; Akinyoade and Uche, 2018;). Compared to earlier research on private accumulation, which emphasised class dynamics and state–capital relations, the current literature, although diverse, has predominantly focused on businesses as an analytical category (for a review of old literature see Behuria, 2019a).<sup>2</sup>

The factors behind the contemporary literature can be contextualised as the complex interplay between a renewed emphasis on industrial policy and the role of firms therein, growing emphasis on political economy frameworks which focus on state–business relations, the revival of Afrocapitalism (see Amaeshi and Idemudia, 2015; Chachage, 2018; Behuria, 2019a) and the zeitgeist of ‘Africa rising’. The latter is a much debated phenomenon drawing attention from numerous circles, but is ultimately concerned with the structure of capital accumulation in African countries and the increasingly dominant role of indigenous and multi-national capital (Rowden, 2013; Beresford, 2016; Taylor, 2016; Bhorat and Tarp, 2017).

The literature on DBGs and conglomerates in developing countries has addressed many of the above factors in implicit ways, even if the explicit emphasis has varied (see, for example, Itaeman and Wolf, 2019). With respect to African businesses there is also a growing acknowledgement that, in spite of weak economic growth, many indigenous African conglomerates have expanded nationally and regionally and therefore offer an opportunity for comparative analysis with the East Asian developmental models (Ovadia and Wolf, 2018).

Following Amsden’s (1989; 2001) pioneering work on firms in South Korea, economies of scope can be understood as a group’s ability to instrumentalise its generic activities into increasing returns for diversification into new sectors. Risk reduction, on the other hand, is an attempt to diversify in more than one business through subsidies which are subject to different market cycles. The complementarity between the two motivators arises in the fact that risk reduction propels businesses into unrelated sectors while economies of scope strengthen a firm’s existing businesses and enable leverage into integrated functions (Schneider, 2009).

Accounting for variations between DBGs in different countries, scholars have often resorted to typologies based on corporate governance, management and firm theories (Khanna and Yafeh 2007; Schneider, 2009). Using economies of scope and risk reduction as the primary

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<sup>2</sup> Notably this literature includes Hirschman (1977), Kaplinsky (1980), Iliffe (1983) and Hopkins (1987).

motivators for the formation of DBGs,<sup>3</sup> Schneider (2009) defined the following three ideal types of DBGs:

- 1 *Organic groups* are defined as those that primarily rely on economies of scope and use vertical integration to build synergies between their organisational framework, personnel management and knowledge expertise. Using Samsung, General Electric and others, this typology is marked by investment in greenfield plants and horizontal acquisitions as economies of scope create the conditions for expansion incrementally.
- 2 *Portfolio groups* rely on risk management as a diversification strategy and their business model is largely geared towards the acquisitions of other firms. Bank-centred groups such as Sweden's Wallenberg and the United States' Pritzker are used as examples of portfolio groups owing to their ability to buy new firms.
- 3 *Policy-induced groups* are influenced to diversify in response to government policies. A broad range of policies including patrimonial politics are hallmarks of this typology and include Russian firms after privatisation, the *chaebol* in Korea and Suharto-linked firms in Indonesia.

Schneider (2009) applies these three 'ideal types' to identify significant variations in size and degrees of diversification across DBGs between Latin America and Asia, whilst also acknowledging that these ideal types are not mutually exclusive. In fact, DBGs can combine different ideal-type strategies and shift over time from one dominant strategy to another. Most importantly, Schneider acknowledges how variations across time and space in DBG strategies result from country-specific political economy dynamics, in particular the institutions and mechanisms which allow firms to expand, diversify and, most importantly, operate as a whole. For example, differences in banking regulation can affect the extent to which DBGs develop financial businesses such as banks within the group.

Taxonomic analysis based on ideal types like those above are useful heuristics to identify and categorise DBGs within and across countries. However, they also present a number of limitations, especially when it comes to disentangling the country-specific historical and structural processes shaping DBG trajectories. In particular, we identify the need for: (i) better understanding of the different institutional and policy regimes under which business groups develop; (ii) recognising how business groups are not simply outcomes but also drivers of a process of change of these regimes; and finally (iii) capturing how these changes are mediated by the political settlement of a certain country and its evolution.

Starting with the first limitation, business groups do not simply respond to one policy or institution. Instead they are simultaneously affected by a plurality of policies and institutions. This is one of the reasons why the same policy or institution can lead to

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<sup>3</sup> Schneider acknowledges that typologies can be based on strategies of diversification, as well as other factors such as type of ownership and corporate governance. See Behuria (2019a) for a recent attempt to expand Schneider's framework by explicitly bringing in the ownership dimension and distinguishing between private, state-owned and party-affiliated firms.

completely different DBG trajectories in different countries. In their development, business groups engage – at the same time – with a complex system of sector-specific as well as broader macro policies and institutions. Each of these policies and institutions operate with different degrees of formality, with a tendency in developing countries for a strong presence of informal institutional arrangements. These institutions and policies determine different economic incentives, determine social-property relations, allocate and define different rents structures, and constrain some economic activities while enabling others. In many cases they also determine which economic actors can take part in a certain market or sector. Especially in developing countries, the degree of coherence among these measures is pretty limited and the enforceability of the rules is highly contestable. All this means that, to understand how DBGs develop, we need to focus on the shift from one dominant strategy (Schneider, 2009) to another, by identifying the dominant institutions and policy that characterise a certain historical phase of development in a specific country.

Regulation theory and social structure of accumulation theory<sup>4</sup> have pointed to the importance of studying capitalist accumulation through the lenses of dominant sets of institutions and policy, identified as ‘regimes’. The concept of ‘regimes of accumulation’ points to the importance of looking at institutional complementarities and changes in organisation of production and management principles adopted to accumulate capital within business organisations, alongside issues related to the distribution of value, the formation of political coalitions and evolution in social demand. Within these contributions, however, the concept of ‘regime’ has been almost exclusively adopted in analysing early industrialisers post-war. Moreover, central to these theories is an understanding of economic and social processes in their subordination to the functional requirements of the expanded reproduction of capital. Transformations in accumulative processes are signified through the changing of ‘regimes’, specifically the transition from one regime to another triggered by structural crises of capitalism.

While the above literature provides important insights, it is not sufficient in addressing the second limitation around recognising business groups as drivers of change. By constantly engaging with the rents structure underpinning a government’s policies and institutions, business groups are constantly seizing and integrating rents alongside market opportunities. In the early stages of capitalist development, rent-seeking and capture is a major focus for business groups. This is because they are still in the early stages of accumulation, thus, they have limited production, technological and organisational capabilities and have limited access to surplus to reinvest (Andreoni and Chang, 2017; Andreoni and Chang, 2019; Andreoni, 2019). Clientelistic networks play a critical role in the informal process of constantly contesting and redesigning the formal policy and institutional setting that determines a country’s rents structure.

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<sup>4</sup> For a review of other streams of research focusing on accumulation regimes, including regulation theory and social structure of accumulation theory, see Labrousse and Michel (2017).

From this perspective, management theories of the firm that are inspired by the study of modern corporations tend to be out of focus. They do not capture some of the internal processes through which business groups exercise strategic control over their resources, engage with the evolving rents structure, allocate and integrate rents in more or less productive activity, manage context-specific risks and exploit complementarities – processes that sit at the core of capitalist accumulation. In this regard, the classical work on business groups by Amsden (1989) in East Asia and more recent empirical literature on development and business studies present more nuanced discussions of the logic of business groups in developing countries (including Khan (2000) in Bangladesh; Whitfield et al. (2015) across Africa; Behuria (2015 and 2019b), in Rwanda; Gray (2018) in Tanzania and Vietnam; and Andreoni (2019), Andreoni et al. (2020) and Sial (2020) in Tanzania). More granular research is needed, however, and several research challenges exist – especially given the blurred boundaries of DBGs, and their formal and informal internal articulation and ownership structures.

The third limitation we focus our attention on is the fact that the historical and dialectic relationships linking business groups development on the one hand and policy and institutions on the other are mediated by the ‘relative holding power of different groups and organisations contesting the distribution of resources’ – its *political settlement* (Khan, 2010: 1). The political settlement is relevant both because it determines which business groups are able to capture more or less rents, but also because it is shaped by the evolution of different business groups in a certain country. Capitalist accumulation processes within business groups ultimately affect the distribution of organisational power as they allow certain economic, social and political groups to mobilise resources to either retain or contest power distribution.

The political settlement is an analytical approach increasingly used in scholarship on African countries (for a review of the approach and contributions, see Behuria et al., 2017). Developed from a critique of new institutional economics and with insights from old institutionalism, Khan, (2010: 4) defines a political settlement as ‘a combination of power and institutions that is mutually compatible and also sustainable in terms of economic and political viability’ (see also Khan, 2018). With a focus on low-income countries, their post-colonial institutional settlements and limited productive capabilities, this approach highlights the existence of structural processes that link capitalist accumulation to power distribution – both horizontal and vertical – and the struggles over property rights and rents. Moreover, it points to the fact that a critical dimension of power in developing countries is the one related to the financing of political coalitions and economic actors, and therefore business groups in particular. As a result, within a political settlement approach, the system of policies and institutions will be enforceable only to the extent that they are ‘feasible’ under the existing configuration of power in the specific sector and country considered.

Building on the analytical lens of political settlements, in this paper we attempt to address the three limitations of business typologies defined above, by proposing the structuralist framework of RCAs. This framework draws on and integrates the three different strands of literature including theories on conglomerates and DBG diversification, political settlement and regulation theory.

By drawing on regulation theory to bring a 'regime of accumulation' perspective, we identify specific phases in which dominant sets of institutions and policy interact with the dominant strategy of DBGs. In doing so, we also look at business groups, their internal logic, as well as power dynamics outside formal institutions through the lenses of late industrialisation experiences and the political settlement approach. The point of departure is not a negation of typologies like the one proposed by Schneider (2009). Rather, it exists in the degree of emphasis on how a conglomerate should be theorised with respect to its historical evolution and how its existential modus operandi lies in its integrated operations being greater than the sum of its parts.

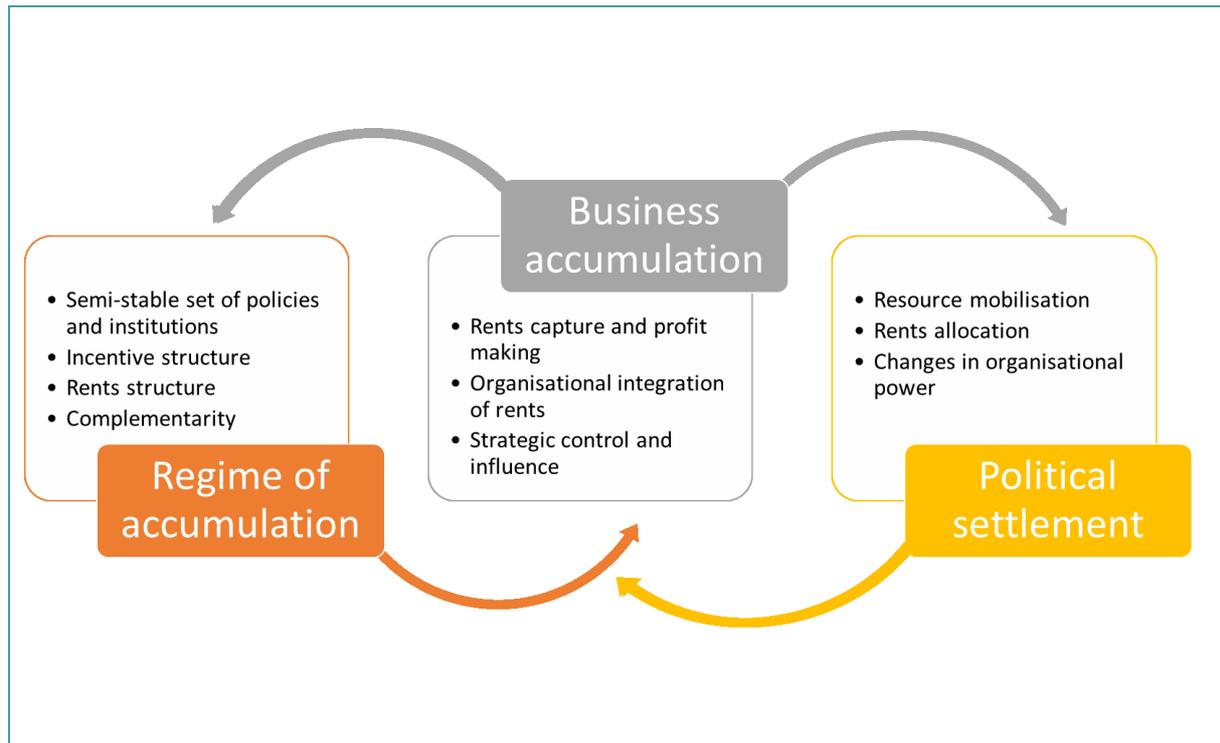
### 3. Regimes of capitalist accumulation (RCA): a framework

In the aftermath of the 2008 global financial crisis, growth in many African countries has been led by the rapid expansion of the private sector. Accelerated investment in traditional sectors has been accompanied by new modalities of business ventures that have enabled the creation of new markets, especially in the realm of finance and through the rise of platform capital. However, this deepening of capitalist expansion has not extended to institutionalisation involving multiple stakeholders; instead, it continues to serve a few interests (see Gray, 2013, 2015, 2018). An important facet of this accumulation is that it happens ‘outside the formal market process where political power is used to privilege the accumulation activities of particular individual and groups’ (Gray 2018: 67). Thus, while market opportunities matter in these countries, the development of business groups – in particular the capability to diversify and expand through multiple subsidiaries – can be better understood in relation to the incentives and rent structures underlying both formal and informal institutions and policies.

We define a *regime of capitalist accumulation* (RCA) as a semi-stable mode of capitalist accumulation resulting from a combination of an historic-specific system of policies and institutions (‘regime of accumulation’), a set of specific accumulation processes and strategies within business groups (‘business accumulation’), and a certain distribution of organisational power mediating state-business relations (‘political settlement’). These regimes tend to be semi-stable as a result of both intended and unintended complementarities across institutions and policies and the specific accumulation processes and strategies between business groups. In other words, for a certain period of time, there is a dominant set of policies and institutions (thus, incentives and rents opportunities) which are linked bi-directionally to a dominant set of business strategies (thus, the way in which firms make money for a certain period of time).

Of course, this does not mean all businesses will seize the available opportunities for rent capture in the same way – bi-directional causal heterogeneity is possible and, to a certain extent, necessary, given the conflict among groups for the same resources. These relationships are thus semi-stable also because they are mediated by the political settlement, and the conflicts across groups that characterise capitalist accumulation (Brenner, 1985; Khan, 2010). Both exogenous and endogenous factors can lead to a crisis of the regime, and thus a shift to a new regime of capitalist accumulation.

Figure 1: Regime of capitalist accumulation



Source: The authors.

Within this framework, the analysis of DBGs in countries at early (or primitive) stages of capitalist accumulation start from the identification of the relevant set of institutions and policies which dominate a certain historical phase. By developing an historical analysis centred around regimes of accumulation, this approach thus diverges from more traditional historical timelines simply linked to political dynamics – e.g. presidential elections, or changes in coalitions. Indeed, political changes might not necessarily reflect changes in the incentive and rents structure underlying institutions and policies. There are several reasons why this is the case: implementation of many of these institutions and policies take time to unfold; they end up being ‘packaged’ with other institutions and policies and create unintended rents and opportunities; new market opportunities can become more relevant and change business strategies in specific sectors, thus making the policy or institution effectively irrelevant; and the related system of compulsion might be present in certain phases and not in others.

At early stages of capitalist development, businesses’ productivity is limited as a result of their limited productive, technological and organisational capabilities, as well as the adverse context in which they operate – that is, a weak domestic market, and a fairly unstable configuration of institutions and policies allocating rents. Against this background, we claim that the main rationale for the existence of DBGs is the fact that this organisational form provides the most viable business accumulation strategy. It is not simply a way of diversifying via economies of scope and risk management (as suggested by Schneider, 2009). DBGs provide the following three most fundamental ex ante functions, which are of critical importance in the early processes of business accumulation.

### **(a) Rents-seeking and profit-making, in the same and across several sectors**

First, by structuring a business as a DBG, it is possible to respond to different incentives and ‘capture rents’ across several sectors and segments of the economy at the same time. These different sectors might present very different types of rents opportunities, alongside different profitability margins. Thus, at early stages of development, in many cases becoming a DBG is not the result of a planned strategy of diversification in related sectors, markets and technologies. Instead, it is more the result of the need to shift from one activity to another (often unrelated), especially in response to political and institutional instability – i.e. ‘rents-driven’ diversification. As a result, the business group might appear highly diversified but activities are not apparently related in traditional market or technology terms.

### **(b) Organisational integration of rents**

Second, DBGs allow for what we call here an ‘organisational integration of rents’, that is, the opportunity to allocate captured rents in a portfolio of activities that include businesses which are purely rents-driven and businesses responding to market incentives and opportunities. The DBGs and conglomerates model allows for resources to be shifted from one activity to another, while retaining control over them. DBGs can turn some of these resources into productive investments and, as a result, transform a politically-competitive business into a market-competitive business (a form of diversification in itself); they can leverage major financial resources to capture more rents; and, finally, they can protect and hide resources when the expropriation risk increases. In most advanced stages of capitalist accumulation, organisational integration of rents also allows for the creation of ‘internal’ and ‘shadow’ markets, including controlling key stages of value chains and price mark-ups, verticalising backward or forward activities, and developing parallel markets for collecting and providing financial services. All of these processes of accumulation would not be possible within a simple business unit.

### **(c) Formal and informal strategic control and influence**

Third, DBGs allow powerful individuals to exercise their influence over a long tail of activities, regions and groups, and within several (and in some cases overlapping) clientelistic networks, beyond formal ownership. While business ownership plays a role, what really matters is how both *formal settings* (legally recognised arrangements such as business share ownerships) and *informal arrangements* (politically-backed agreements and collusive behaviours) in DBGs allow individuals to exercise strategic control and influence across several activities. Formal ownership arrangements are often opaque, especially when it comes to non-public listed companies, and, even in the latter cases, beneficial ownership is difficult to unpack. Moreover, exactly because the ownership structure is unclear and resource transfers across activities within conglomerates or DBGs are frequent, it becomes difficult to assess the extent to which a business activity is successful (or not), or indeed would be (or not) viable outside the business group or conglomerate structure.

We have already pointed out how both the institutional and policy dynamics (regimes of accumulation) and the business dynamics that characterise DBGs (business accumulation)

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are intrinsically intertwined with the political settlement. Depending on the political settlement, the system of policies and institutions will operate with different degrees of compulsion. Thus, for example, business portfolio diversification strategies will be more or less driven by rents or market incentives, and their increasing shift towards more market-competitive business more or less sustained. The political settlement approach has also pointed out how a key dimension of power is the one arising from powerful organisation financing, especially during political campaigns. DBGs are capable of leveraging significant financial resources, thus they are central to the evolution of the political settlement.

In what follows we apply this analytical framework to map out the development of DBGs under different regimes of capitalist accumulation in Tanzania. Given the important role that the colonial period played in setting up the capitalist accumulation processes in the country along the regimes that followed, we track the history since the mid-1940s.

## 4. Regimes of capitalist accumulation in Tanzania, 1940–2020

Tanzania's contemporary capitalist accumulation has evolved during a series of specific historical transitions. The concentration of corporations in certain sectors and the processes which have determined contemporary firm behaviours can be traced to the historical experiences of British colonialism and Tanzania's later shift from socialism to capitalism. Within these defining historical moments, business groups have also been shaped by the experience of East African regionalism.

In what follows, we provide an historical account of the struggle for 'indigenous accumulation' and then focus on the emergence of DBGs under the RCAs starting from the 1980s.

### 4.1. The struggle for indigenous accumulation: the early years of regional corporate evolution in Tanzania and post-colonial developments

Under British colonialism, the roots of major foreign and local businesses in Tanganyika and Uganda predominantly emerged as linkages to business hubs in the more developed colony of Kenya. Kenya attracted more foreign investment in comparison to Tanzania due to a higher investment in infrastructure by the British colonial government and the presence of a relatively institutionalised governance structure. Peripheral industrial investment in Tanzania and Uganda was a direct consequence of regional tariff policies which favoured Kenya (see Rweyemamu, 1973). Typical of British colonial administration in Africa and Asia, the accumulation regime of the entire region was oriented towards the export of certain commodities and the import of finished goods and products from Britain and other European countries. In spite of the various operations of British companies, import substitution was quite limited and the manufacturing sector constituted less than 5% of the gross domestic product (GDP) in 1958 (Pratt, 1972).

Simultaneously, as businesses expanded, independent entrepreneurs without roots in large transnational corporations also emerged, eventually building empires in their own right. Jayantilal Keshavji Chande and Karimjee Jivanjee, Asian-Indian entrepreneurs of the Gujrati community, eventually became emblematic of the successful 'middleman' or intermediary traders forming part of the rudimentary value chain cycle, which connected international capital to the niche operations of the local Tanzanian economy (see Figure 2 for a representation of the transnational Jivanjee business).

**Figure 2: An example of the transnational nature of Tanzanian business: the company structure of the Karimjee Jivanjee family**

<b>KARIMJEE JIVANJEE &amp; Co. Ltd</b> Established in 1825 in Zanzibar	
<b>The International Motor Mart, Ltd.</b> Established in 1929 (Dar es Salaam, Tanzania) – represented American and British motor companies. 1965 – Toyota distributorship awarded (renamed Toyota Tanzania Ltd).	<b>KarimjeeJivanjee Estates, Ltd.</b> Established in 1939 (Dar es Salaam, Tanzania)
<b>Karimjee Trading and Co., Ltd.</b> Bombay branch established in 1939	<b>KarimjeeJivanjee and Co. (UK) Ltd.</b> London branch established in 1949
<b>Karimjee Properties Ltd.</b> Established in 1942 (Dar es Salaam)	

Source: Adapted from Oonk (2017).

The Asian community had a significant presence in East Africa, both as indentured labourers under the British but also as traders in their own right since the 1800s who became especially prominent in Zanzibar. The number of Asians in East Africa exceeded the number of Europeans and this was even more pronounced in Tanzania (Seidman, 1972; Himbara, 1997).

Tanzania's transition from colonialism to independence did not sever its links with colonial capital; the economy remained dependent on foreign investors and many subsidiaries continued to operate without significant representation of indigenous citizens in managerial positions. Although industrial surveys had been carried in then Tanganyika since 1958, according to Van de Laar (1972) the survey of 1965 was the first detailed industrial survey in Tanzania. Its findings established that, out of the 569 industrial enterprises with more than 10 employees, 321 employees were non-residents (ibid.). In comparison to residents, non-residents also held a higher proportion of share capital in firms.

The first seven years after independence were as uncertain and politically charged as the period leading up to the struggle for Tanzania's independence; Zanzibar became independent in 1963 and the following year it merged with mainland Tanganyika. But, with the implementation of the Arusha Declaration in 1967, the country officially adopted a state-led development model, aspiring for greater economic self-sufficiency based on the principles of socialism. The pursuit of a pure form of socialism was also contingent on the presence of strong indigenous capital and a sophisticated industrial infrastructure, however, conditions that Tanzania lacked. This limitation meant that the nature of accumulation even after the Arusha Declaration was dependent on foreign capital in various forms; complete state ownership of firms was accompanied by the state's joint ventures with multinational corporations (MNCs).

The National Development Corporation (NDC), the state's main parastatal, was in charge of leading industrial investment by partnering with MNCs. Joint ventures with foreign firms helped address the deficit of skilled employees whilst ensuring that the foreign firms supplied the necessary equipment and infrastructure (Barker et al., 1975). Development assistance through second-hand machinery, concessional loans and grant aid also supported industrial accumulation in this period. The Swedish International Development Agency (Sida) helped conduct feasibility studies for many corporate ventures and also financed investment loans. Similarly, Ubongo Farm and the Tanzania-Zambia Railway Authority (TAZARA), both Tanzanian operations, were set up with the help of Chinese aid. Transnational Asian capital continued to play a prominent role with major examples such as the establishment of the Uganda-based Mtibwa sugar refinery by the Madhavani brothers, Kilimanjaro Breweries, Kioo Glass and the Madhvani sweets factory, and Chamdaria Group's expansion in Aluminium Africa Ltd, Matabi Ltd and Paper Products Ltd in Tanzania. Other transnational migrant capital which found a concrete presence in Tanzania included the Industrial Promotion Services (IPS), which was set up by the Ismaili Group to encourage the pursuit of the Ismaili community's involvement in industrial capital.

The government's pursuit of complete ownership of all means of production included the nationalisation of all banking and insurance, trading companies and sisal plantations. The state acquired the Tanzania Portland Cement Company, Tanzania Metal Box Company, Kilimanjaro Breweries, British-American Tobacco, the Bata Shoe Company and eight milling firms with their associated food manufacturing interests. Many thriving businesses faced a halt to their operations. Individuals such as Karimji Jivanjee and Keshavji Chande lost their assets to state appropriation (see Tables 1 and 2).

**Table 1: Overview of companies incorporated in the 1960s**

Urafiki	KIZAKU-Ubungo Firm	TEGRY Plastics	GALCO/Aluminium Africa Ltd (ALAF)	Tanzania Breweries Limited (TBL)	Tanzania Cigarette Company (TCC)	Tanzania Portland Cement Company Limited
Incorporated 1966. Start of production 1968	Incorporated 1968. Start of production 1968-1970	Incorporated 1962	Established 1960. Start of commercial operation in 1963	Incorporated 1960	Incorporated 1965	Incorporated 1959
Subsidiary of the National Textile Company (TEXCO) – a government holding company for all the publicly owned textile companies in Tanzania.  Function: sale of textile products, mainly cotton fabrics and yarn. Employees: 3,258 (permanent employees).	Function: produce and distribute hand-drawn farm implements. Employees: 693. A wholly owned subsidiary of the NDC. Company was built with assistance from China.	A wholly owned subsidiary of the National Chemical Industries (NCI). Function: manufacture of plastic pipes.	One of the five divisions of ALAF, a holding company that produces alumina and steel products in Tanzania. Shared ownership: 62.6% owned by NDC and 37.5% owned by English Finance Company Clovis (EFCC). GALCO is involved in the development of galvanised iron and the steel industry in Tanzania.	Two branches originally, one in Dar es Salaam and the other in Arusha. Also has a bottling plant in Moshi. Company owned jointly at 50% by the Government of Tanzania and a private company from South Africa – Indol International Holding in 1993 complete state ownership.	Formerly British American Tobacco Tanzania Ltd. At the time of incorporation all shares were owned by the East African Tobacco Company Ltd. Following the nationalisation process, the Government of Tanzania acquired 60% shareholding in the company and soon after the NDC bought the 40% shareholding from the East African Tobacco Company Ltd and renamed it to the TCC.	Ownership: Government of Tanzania's holding company Saruji Corporation – 74%, SCANCEM International – 13%, SWED Fund International – 13%. Employees: 891.

Source: Shayo-Temue (1996).

**Table 2: List of companies with respect to ownership after Arusha Declaration**

<b>Firm</b>	<b>Type of ownership</b>
Amboni Ltd: Kigombe Sisal Estate	Private foreign
Amboni Plastics	Private foreign
General Tyre	Joint venture parastatal involving state and private foreign capital
Philips Electronics	Private foreign
Sikh Saw Mills (Tanga)	Wholly state owned
Tanga Steel Rolling Mills	Joint venture parastatal involving state and private foreign capital
Tanganyika Extract	Wholly state owned
Tanganyika Planting Co. Ltd (TPC)	Private foreign
Tanganyika Industrial Corporation (T.I.C)	Joint venture parastatal involving state and private local capital
Tanzania Tanneries	Joint venture parastatal involving state and private foreign capital
Tanzania Bag Corp	Joint venture parastatal involving state and private foreign capital
Tanzania Fertiliser Corp.	Joint venture parastatal involving state and private foreign capital
Tanzania Shoe	Wholly state owned
Tanzania Agricultural Machine Testing Unit (TAMU)	Wholly state owned
Tanzania Breweries	Joint venture parastatal involving state and private foreign capital
Kibo Match	Private local
Kioo Glass	Private local
Kilimanjaro Textiles (Kiltex) Arusha	Joint venture parastatal involving state and private foreign capital
KigombeHecogenin	Private foreign
Kwamkoro Saw Mills	Wholly state owned
Mwanachi Tractor and Vehicle Assembly (MTAVA)	Joint venture parastatal involving state and private foreign capital
Mount Meru Hotel Construction: contracted to MECCO	Joint venture parastatal involving state and private foreign capital
Mwananchi Engineering and Construction (MECCO)	Wholly state owned
Ubungo Farm Implements (UFI)	Wholly state owned

Source: Authors based on various archival sources.

President Nyerere sought to control business interests by putting the state at the heart of all decision-making. This political acumen also followed a logic in which industrial policy and village modernisation sought to ameliorate the rural and urban divide. Industries such as Ubungo Farm Implements and Tanzania Fertilizer were attempts to upgrade and industrialise the rural sector. The reorientation of production and services to harmonise the operations of firms to enable equal integration of the rural and urban sector has been described by Clark (1978) as an attempt to reduce reliance on imports, although the share of investment remained high:

*‘In the pre-Arusha period 50 percent of the assets belonged to firms exploiting forward linkages, but there were no firms exploiting backward linkages. In the post-Arusha period, the industrial sector as a whole was much more integrated. Over 80 percent of the assets belonged to firms developing some form of linkages with the agriculture sector.’* (Clark 1978:136)

In 1972, the government launched its Basic Industrial Strategy, which focused on import substitution. The same year, the Small Industries Development Organization (SIDO) was created as a way of encouraging small industrial firms to produce a variety of light-

manufacture goods. The active support for manufacturing was accompanied by an agricultural policy that heavily taxed exports and farmers (Lofchie, 2014).

However, the socialist model was not without caveats. For example, Amboni Ltd, a Swiss firm that owned sisal estates in Tanzania, was not nationalised in 1967 – a fact which has been ascribed by commentators to the company's earlier investment in Nyerere's village settlement in 1964 (ibid).

By the second half of the 1970s, the exigency of Tanzania's economic difficulties was widely accepted by a variety of stakeholders. A pro-liberalisation consensus among certain state bureaucrats, party members, and intelligentsia and business interests were germane. The debate surrounding the efficacy of market forces became more palpable as previously poorly performing parastatals failed to generate significant foreign exchange. Here, Skarstein and Wangwe's (1986) analysis reminds us that the mere size of the parastatal does not determine the causes of unproductivity. The authors draw attention to the weakness of the organisational structure of parastatals and specific governance failures such as ad-hoc decision-making based on poor feasibility studies as the causes of poor productivity.

Although the government tried its best to increase investment in industry and agriculture, it could not address the productivity deficit (see also Temu and Due, 2000). External factors which confounded the obstacles to growth and further strained the economy in a short period of time included the breakup of the East African Community (EAC) in 1977, Tanzania's war with Uganda throughout 1978–1979 and the doubling of oil prices in the aftermath of the 1979 Organization of the Petroleum Exporting Countries (OPEC) oil crisis. The state found itself in a difficult position and sought to avoid any impending crisis by resorting to the donor community.

The 1980s saw the unravelling of Tanzania's centralised bureaucratic model and the implementation of policies which would lead to a steady reversal of the Arusha doctrine. Accepting the need for structural and governance reforms, President Nyerere held extensive discussions with the International Monetary Fund (IMF) but there was no emerging consensus on the nature of restructuring. Following this failure of talks, the government initiated several home-grown economic reform programmes, including the 1981–1982 National Economic Survival Programme (NESP) and the 1982–1983 Structural Adjustment Programme (SAP). These attempts to ameliorate the fiscal deficit through external borrowing were followed by a partial import liberalisation programme in 1984, and eventually full liberalisation of the economy was initiated in 1985 as President Nyerere stepped down and Ali Mwinyi took power.

As opposed to normative frameworks which analyse the liberalisation period as a homogenous trajectory initiated under President Mwinyi, we make a distinction between two accumulation regimes which facilitated business expansion in this period. The first regime of accumulation (1985–1990) involved a regulatory attempt at reversing socialist policies, while the second (1990–1995) focused on the distributional aspect of these regulatory policies including privatisation, state-linked incentives and the creation of institutions and linkages which persisted under different governments.

## 4.2. First RCA: undoing *Ujamaa*<sup>5</sup> – regulatory reversal of socialist policies (1985–1990)

The period from 1985 to 1990 created the first lasting framework for Tanzania's business capitalist accumulation. Although spanning only five years, this period set the foundations for Tanzania's longest political settlement; the Chama Cha Mapinduzi (CCM) ruling party gradually transformed its socialist roots and formed a new capitalist alliance with business elites, some of whom actually had their assets nationalised in the past. The determinants of this RCA can be identified in the regulations and government incentives which institutionalised and accelerated existent rent-generating activities, creating the space for an indigenous private sector.

A parallel second economy or an illicit black market already existed under socialism. Whilst the majority of individuals were engaged in informal and illegal activities to compensate for limited income earnings under the official economy, there were significant private entrepreneurial activities taking place too (Bagachwa, 1989). Chachage (1995) identified the second economy in this era as a dependent feature of the official economy as well as commercial activity:

*'Successful "entrepreneurship" in the second economy, as opposed to mere survival, tends to depend on the manipulation of both official connections and private opportunities.'* (ibid: 42)

Siphoning of resources from the official state as a source of accumulation for the second economy was also evident in the government's crackdown on illegality. The Economic Sabotage Act targeted traders and shopkeepers specifically; out of the 4,216 people arrested for these illegal activities, 2,872 were business people (Nagar, 1996). In the presence of this mushrooming second economy, state-led regulations established the organisational scaffolding of liberal and market-centred development through a series of diverse incentives and rents specifically targeted at businesses.

The government-led Own-Import Scheme in 1986 was one of the most transformative policies in enabling the rise of Tanzania's indigenous businesses. The scheme allowed businesses to obtain foreign exchange from sources other than the Bank of Tanzania. These sources were not regulated and imports were not subject to price controls. The diversity of sources included parallel exchange markets, foreign investors and personal networks. Several illegal capital flows were also used to fund the imports including smuggled commodities such as diamonds, gold and coffee, off-shore payment of property rents and invoicing irregularities in trade

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<sup>5</sup> *Ujamaa* means extended familyhood or brotherhood in Kiswahili. The term was used as the ideological basis for building a community for Nyerere's socialist policies. Familial solidarity was the basis for policies such as villagisation and the one-party system.

(Skarstein et al., 1988). In 1987, own-import funds accounted for almost 40% of Tanzania's total imports and within two years of operation this fund became the largest foreign exchange window (ibid; Lofchie 2014). Since companies were not compelled to show funding sources for imports, the own-import scheme enabled windfall gains.

This scheme was simultaneously complemented by the Export Retention Scheme launched in the same year. Under this, exporters were initially allowed to retain 10-15% of their export receipts, which later increased to 50% of retentions in 1988. Although the scheme was designed to incentivise businesses to invest in certain sectors by offering them retained profits, it was not always used productively. Some businesses initially invested in agriculture and used the retained profits to diversify into more profitable sectors, but in doing so did not sustain investments in agriculture. Idle investments also continued to benefit from retained investments as the regulation was not strictly imposed (interviews with chief executive officers (CEOs) of DBGs, Dar es Salaam, 2017).

Export production incentives were additionally supplemented by the Debt Conversion Programme that was jointly administered by the Bank of Tanzania, the Co-operative and Rural Development Bank and the National Bank of Commerce. This programme aimed to reduce Tanzania's foreign debt by converting it to local currency for investment projects. As with the Own-Import Scheme, the programme also suffered from regulatory failures and allegations of misuse of funds for personalised gains. Donor support for the private sector during this period was also crucial because it operated as a combination of support for state policies as well as independent funding for private businesses. For example, the 1988 Open General License (OGL) Scheme, which enabled the availability of 'counterpart funds' for importing licenses for specified goods, was initially supported by the World Bank but soon included funds from other donors and bilateral agencies.

Laying emphasis on regulatory overhaul as the hallmark of the first RCA shows that the adoption of a combination of liberalised state-led policy incentives and a series of rents was not simply a matter of extractive accumulation but a design feature of a transitioning phase towards capitalism. As the next discussions will show, the impact of these policies was not spread evenly across businesses.

### 4.3. Second RCA: experimenting with *Ruksa*<sup>6</sup> (1990–2005)

The defining feature of the period extending from 1990 until 2005 was the implementation of privatisation, the deepening of liberalisation in multiple sectors and their combined impact in creating new markets. The acquisition of state assets has been one of the most beneficial strategies for major DBGs. Notable privatised assets acquired by the five leading

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<sup>6</sup> In Kiswahili the term *Ruksa* means 'permission'. The word was associated with Ali Hassan Mwinyi's presidential period and followed from his statement '*kilakituniruksa*', which translates to 'everything is permissible'. *Ruksa* signified a transition from socialism towards the adoption of free market policies (Nyambi et al., 2016).

DBGs include the National Milling Corporation (Bakhresa in 1988), Sabuni Detergents (1995), a salt mine (MAC Group in the 1990s) and a textile company (METL in the 1980s) (Sutton and Olomi, 2012). Apart from the acquisition of key parastatals, DBGs also acquired a large proportion of real estate such as rental properties, warehouses, agriculture farms, transport companies and other assets.

The institutionalisation of privatisation in Tanzania was a highly politicised process which can be understood as a conflict of competing interests from bureaucracies. The divestiture process was based on three initial steps: the implementation of the 1991 Loans and Advances Realization Trust (LART) Act to extract the maximum return from the sale of state-owned enterprises (SOEs), followed by the establishment of the Presidential Parastatal Sector Reform Commission (PPSRC) in 1992, which was responsible for overseeing the divestiture process, and finally the formation of the Dar es Salam Stock exchange in 1994 to allow for regulated exchange of securities. The functioning of LART was in contrast to the PPSRC's *raison d'être* of ensuring a steady path towards privatisation. LART emphasised equitable resolution of indebted SOEs by ensuring that tax payers and the government were not straddled with long-term debt.

However, the PPSRC was under pressure to deliver in a short time span. A lack of technical capacity and governance failures led to an embedded approach of hasty privatisations, which continued until the late 2000s. And these privatisations have recently been questioned on grounds of transparency and effectiveness (*The Citizen*, 2016). Rent distribution through privatisation is difficult to measure owing to a lack of empirical data. Moreover, asset prices of indebted state entities cannot be reflective of their potentiality to generate profits in the future owing to a combination of external and internal factors, including the condition of industrial equipment, geographical location and potential to generate profits as ancillary industries developed. For these reasons, state-owned firms appropriated by DBGs brought investment gains, which materialised as industries matured over time.

The impact of state asset acquisition was confounded by reforms in major sectors like agriculture; liberalisation of licenses to regional co-operatives and deregulation of crop prices enabled emerging DBGs to extend control of the entire product cycle and integrate domestic value chains in unrelated sectors. Furthermore, the impact of rents accumulated by DBGs in this period need to be juxtaposed in context against how the intersection of public and private interests operated on a broader scale. The use of public bureaucracy and public office was exploited for personal appropriation on a wide scale, a notable example being the sale of Kiwira Coal mine to TANPOWER Resources – a company owned by then-President Mkapa, his Minister of Energy and Minerals and other relatives (Eriksen, 2018). In this case rents were completely personalised and unproductive in terms of leading to any socio-economic structural transformation.

In contrast, rents accumulated by some large businesses and key DBGs were reinvested and led to the creation of entire industries from scratch. The role of key indigenous DBGs in this sense is of special relevance when compared with the simultaneous emergence of the extractive sector, which was largely dominated by international capital (see Lange

and Kinyondo, 2016). Rents accumulated by DBGs were nonetheless extreme considering their rise was marked by a lack of internal competition and continued to be complemented by enhanced subsidies. For example, prior to the establishment of the Tanzania Investment Corporation (TIC) in 1997, many businesses were awarded blanket five-year tax holidays. In later years, other tools were developed such as tax reductions to match the level of investment and concessions on duties conditional on strong returns on investment.

#### 4.4. Third RCA: unproductive rents and DBGs (2005–2015)

The third RCA is closely aligned with the reorientation of CCM politics towards the adoption of an enhanced liberal agenda. With respect to the nature of capital accumulation by businesses, four key factors stand out. These included: i) strengthening of state–business relations and tax exemptions to companies, ii) patterns of regionalisation including the expansion of Tanzanian companies in East Africa, iii) exemptions in the common external tariff (CET), and iv) a deepening of smuggling patterns.

The election of President Kikwete’s government in 2005 was accompanied by the entry of key businessmen in politics. The wider trend of rising costs of election campaigns and deepening of tax exemptions to individuals and private companies also coincides with this period (Therkildsen and Bak, 2019) (Figure 3). From a diplomacy perspective President Kikwete’s government was also consistent in negotiating the expansion of key DBGs in neighbouring countries, including the setting up of preferential trade deals, export exemptions and access to agriculture farmlands in East African and Southern African countries (interviews, DBG CEOs, Dar es Salaam, 2018).

**Figure 3: Tax exemptions, 2002–2016 (Tsh billion in constant 2010 prices)**



Source: Annual Reports by the Controller and Auditor General, Tanzania, reproduced in Therkildsen and Bak (2019: 19).

Efforts to increase access to East African markets were also accompanied by the implementation of trade regulations under the CET. The CET was adopted by Tanzania and

other countries under the EAC in 2007, to ensure that all countries in the bloc harmonise their tariffs for stability in international trade and to enhance the conditions of favourable regional trade. Since its implementation, the harmonisation of CET across countries has faced a number of obstacles. Primarily this stems from the numerous applications of unilateral stays or derogations from the CET, which exempt individual countries from adopting the flat rate CET rates.

Under the CET's Duty-Remission Scheme (DRS), countries can choose companies that can benefit from duty-free imports as manufacturing input (Bünder, 2018). Lobbying by interest groups in member countries has been identified as one of the key factors of exemptions and EAC stakeholders perceive this as an area open for abuse (ibid). In comparison to Kenya and Uganda, Tanzania's exemptions from the CET have been less, but certain products have been subject to exemptions repeatedly, nonetheless (see Table 3).

**Table 3: CET exemptions for Tanzania – list of products (2007–2015)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Unilateral stay of application – decrease compared with CET	3: wheat; buses	4: barley; hoes; buses	6: wheat; buses; trucks	6: iron and steel product; wire; trucks; tractors	10: tractors; trucks; wheat; hoes; rails; wires	15: trucks; wheat; hoes; iron and steel products; wires; packaging; barley; buses	17: trucks; buses; wheat; barley; polymers; LABSA; packaging; seed coating	13: trucks; buses; wheat; barley; polymers; LABSA	9: trucks; buses; LABSA; sodium sulphate

Note: LABSA = Linear Alkyl Benzene Sulfonic Acid.  
Source: Bünder (2018) using data from EAC Gazette.

A first observation from Table 3 is that almost all of the products, with the exception of buses and rails, are used by the leading DBGs at some point in their production, manufacturing and processing value chain. Estimates of the exemptions from CET across multiple products including agricultural raw materials, chemicals, capital goods and logistics infrastructure such as trucks over a period of nine years amount to billions of subsidies. These issues of tax harmonisation have also been accompanied by an increase in smuggling. Indeed, as documented in a number of contributions (Andreoni and Tasciotti, 2019; Andreoni et al., 2020), the creation of the EAC opened and scaled up opportunities for rents capture, both directly through smuggling products within a country and indirectly through smuggling products and re-exporting them across the region. Those businesses that had established trading relationships and had cumulated significant liquidity intensified operations in the lucrative import market and used national exemptions with the EAC to capture rents. A number of commodities witnessed significant increases in trade mis-invoicing during this period (Table 4).

**Table 4: Trade mis-invoicing in Tanzania, selected commodities (US\$, purchasing power parity (PPP) 2010)**

Category/Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Vegetable products	45.3	26.8	30.6	149.0	186.0	-56.3	24.6	34.4	-4.8	17.5	-100.0
Fats & oils	72.1	14.0	-47.4	-82.6	-63.9	-45.0	-127.0	-16.3	-85.8	-69.3	-168.0
Prepared foodstuffs, beverages, spirits and tobacco	-43.9	-43.6	-36.4	-83.9	-74.4	-68.0	54.1	-94.6	-110.0	-120.0	84.6
Mineral products	1150.0	1320.0	220.0	737.0	912.0	1950.0	642.0	780.0	120.0	215.0	-175.0
Products of chemical and allied industry	-77.4	-99.5	-66.2	-77.8	-54.3	-166.0	-222.0	-169.0	-94.3	-136.0	-50.6
Plastics and rubber	-174.0	-10.7	-5.5	2.8	-64.8	-130.0	-119.0	-137.0	-131.0	-105.0	-114.0
Skin, leather and articles thereof	-12.6	-12.6	-9.3	-17.8	-22.9	-26.3	-31.5	-62.2	-92.2	-53.1	-49.8
Wood & articles of wood materials	-6.9	-3.1	-1.7	-2.7	-5.1	-4.2	-11.9	-25.5	-12.7	-3.8	-8.9
Pulp of food, paper and paperboard	-13.1	-45.4	-39.0	-18.9	-50.5	-72.2	-41.6	-43.8	-102.0	-97.8	-76.7
Textiles and textile articles	-171.0	-263.0	-216.0	-282.0	-318.0	-324.0	-419.0	-649.0	-708.0	-631.0	-563.0
Footwear, headgear, umbrellas	-34.9	-42.8	-40.5	-75.2	-90.3	-112.0	-122.0	-210.0	-255.0	-194.0	-178.0
Articles of stone, cement, glass	-21.2	-16.4	-5.8	-15.6	-19.2	-19.8	-64.9	-107.0	-123.0	-83.6	-97.3
Pearls, precious stones	-6.3	-4.3	-2.9	-3.6	-0.7	-1.6	-4.4	-8.0	-4.7	-4.2	-6.6
Base metals and articles of base metals	34.1	84.7	-68.8	-20.5	-11.6	-39.1	6.2	-133.0	-310.0	-207.0	-222.0
Machinery and mechanical appliances, electrical equipment	-126.0	1.4	-85.0	-26.2	-125.0	-151.0	-395.0	-489.0	-442.0	-527.0	-225.0
Vehicles, aircraft, vessels	-54.8	151.0	-190.0	235.0	268.0	88.4	47.2	142.0	-85.3	62.2	-26.9
Optical, photographic instruments	-2.3	-6.6	-3.6	-15.4	-0.4	-4.4	-51.1	-2.1	5.8	-13.2	-10.9
Arms and ammunition	-0.1	-0.1	-0.6	-0.6	-0.9	-1.1	-0.3	-0.2	n/a	0.0	-0.9
Miscellaneous manufacturing articles	-18.7	-24.4	-8.1	-27.2	-16.5	-50.3	-92.0	-160.0	0.0	-137.0	-128.0
Works of art & antiques	-14.1	-62.9	-62.7	-44.0	0.0	-5.7	n/a	-52.0	n/a	-14.2	15.5

Notes: The classification of the commodities is taken from Levine and Widell (2014). Negative (positive) values indicate that Tanzania has recorded a value for the import that is lower (higher) than that recorded by the exporter.

Source: Andreoni and Tasciotti (2019).

On the whole, this RCA was marked by an increase in concentration of leading DBGs and exacerbation of monopoly in some sectors. On-going liberalisation and the changing structure of global investment also allowed companies to adapt their production-centred business models towards more financial sectors, including commercial banking and insurance. Experimentation with private equity, investing to sell for foreign shareholders or MNCs and mechanisation of value chains also became an avenue of diversification often at the cost of reinvestment in productive sectors.

## 4.5. Fourth RCA: DBGs between authoritarian developmentalism and premature formalisation

The election of President Magufuli in 2015 led to a break in CCM politics and opened the path to a new RCA characterised by both continuity and discontinuity with the past. Despite a strong message of discontinuity and the promotion of a 'Blue Print Report of Reforms' in several policy and institutional areas, the new government has not been able to reconfigure the rents structure in a systematic and coherent way. Therefore, continuity with the past has been the default result here. Resistance to change at the national level, political dis-alignment at the regional level, a struggle to re-gain control of the government apparatus and reduced fragmentation of power within the ruling coalition are all factors that have slowed down the emergence of a new RCA.

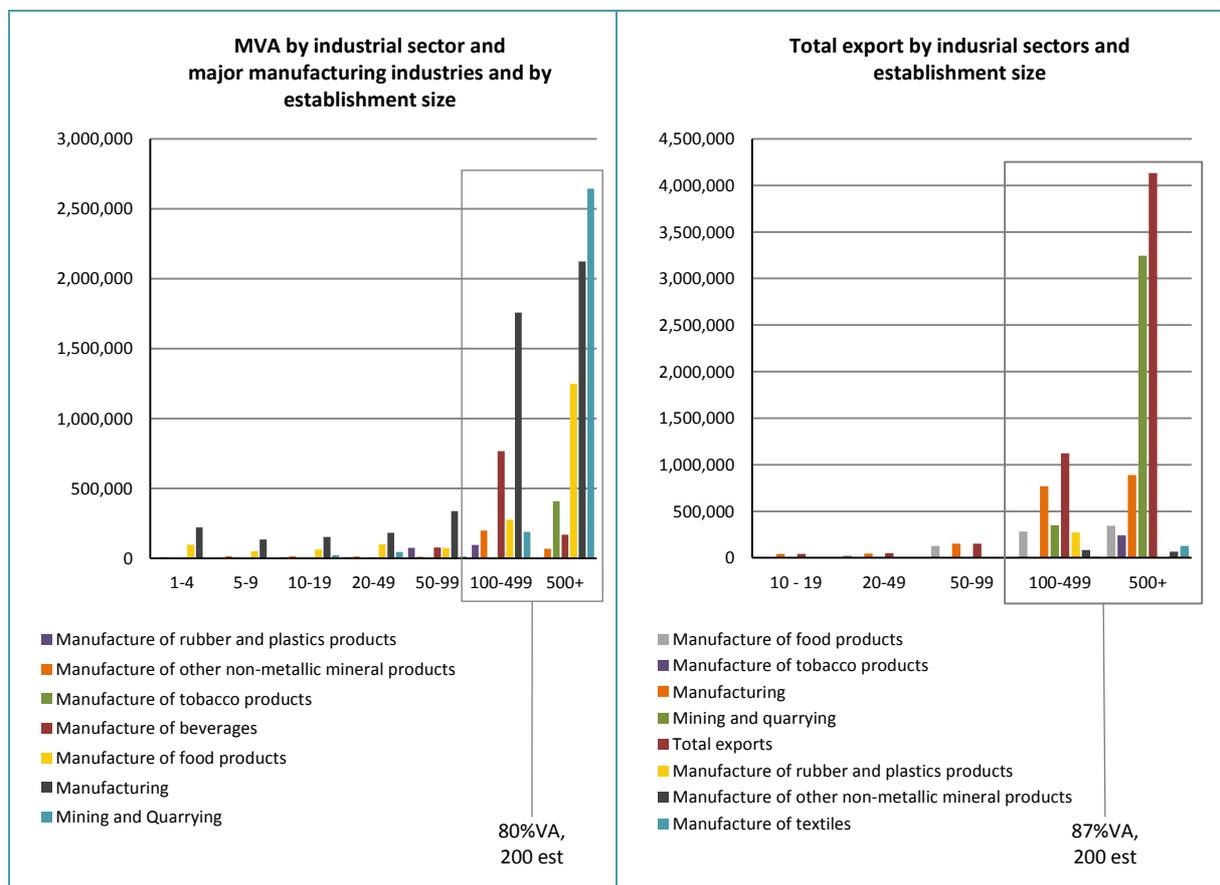
Regaining control of CCM has provided not only a way to re-centralise power, but also to re-centralise rents and their allocation in the public and private sector. Notably, after several changes in the CCM cadres in 2016 and 2017, in December 2017 Magufuli appointed University of Dar es Salaam political science lecturer Dr Bashiru Ally to lead a committee to trace CCM assets and liabilities. Throughout 2018 and 2019, the committee travelled across the country and interviewed CCM cadres and business people suspected of obtaining party assets improperly. The identification of these assets is critical to support political and presidential campaigns, and make the ruling coalition relatively more independent from business groups during elections. This operation represents an important element of discontinuity with the past, as it increases the policy and institutional enforcement power of the government. As a result of these operations and the centralisation of power within CCM, many business groups have found themselves cut off from their established clientelistic networks. This has created uncertainty in the business environment and has slowed down the capitalist accumulation process of the previous RCA.

There are a number of other policy and institutional areas where discontinuity has been more evident and new policy and institutional complementarities have been emerging towards a new potential semi-stable RCA configuration. This discontinuity has led to both intended and un-intended outcomes and DBGs have reacted strategically to this evolving scenario in different ways. With respect to DBGs, a series of incentives as well as punitive measures have focused on three main aspects: enhanced tax collection, selective bespoke deals and threats of nationalisation (for a review of some of these measures see Andreoni, 2017a).

First, the enhancement in tax collection with the introduction of measures aimed at fighting smuggling, tax avoidance and other rents capture practices have gone hand in hand with retroactive punitive measures aimed at re-establishing some government fiscal and expenditure capacity. This capacity diminished considerably after the third RCA period (see above). While a number of these measures have pushed businesses towards more compliance and a reconsideration of their business models, other businesses groups that were highly dependent on previous clientelistic networks and rents capture have collapsed.

Increased tax collection and regained control over rents allocation are critical steps in the implementation of a developmentalist agenda. However, the speed of this process and its formalisation depends on the capacity of business groups to adapt to the new RCA and reconfigure their activities. Given the high degree of concentration in the industrial sector and in the ownership structures of productive establishments (see Figure 4), in Tanzania the response of business groups during this period has been highly dependent on the fortunes of a few DBGs controlling several sectoral value chains. The risk of a ‘premature formalisation’ is that policy changes may not allow these DBGs to restructure and change the balance between rentier and productive activities within the business portfolio. Premature formalisation can also result in un-intended outcomes. For example, under this RCA, the increased risks of being caught for tax avoidance or smuggling has also increased the reward demanded for facilitating these practices. DBGs dispose of significant financial resources, thus this shift might have in some cases raised the bar of rents extraction or shifted it in other areas more than reduced it.

**Figure 4: Concentration in the industrial sector in Tanzania, 2013**



Note: MVA stands for Manufacturing Value Added and VA for Value Added.

Source: Census of Industrial Production (2013); Andreoni (2017b).

Second, selective bespoke deals that are conditional on productive investments – in some cases jointly with the government and state companies – are the other distinctive feature of this RCA. This is an important sign of discontinuity with both the second and third RCA discussed above. Under Magufuli, a number of DBGs (but not all) have been allocated rents in the form of land, preferential tax regimes, public procurement and licences under the

condition that these rents would have allowed the DBGs to leverage their organisational capabilities and promote domestic investments. While politics has played an important role in determining who has been allocated what rent, at the same time it is worth noting that DBGs were differently prepared for this shift in the RCA – some DBGs had better leveraged their competitive advantages and were ready to engage the government under different terms. Those DBGs which had already shifted from a purely rents-driven capitalist accumulation process and had started exploiting their business model to develop innovative forms of organisational integration of rents and internal market creation were better positioned.

Third, the threat of renationalisation and land dispossession have been other two important signs of discontinuity. Privatisation of the second RCA has been increasingly contested and DBGs have seen significant rents sources under threat for the first time. In particular, the government's threat to repossess land which is held without productive investments or for speculative purposes has raised major concerns. Assets of this type are critical in backing up major DBG operations, as well as in sectors with high margins such as construction and real estate.

The shift of government operations from Dar es Salaam (largely controlled by DBGs) to Dodoma (where the government still controls land) is part of this process of removing rents allocated from the past. Similarly, in the extractive sector, the threat of renationalisation to seek compliance in taxation from international investors has led to prolonged legal action against international investors and the shutting down of domestic business. More recently, this threat has opened the space for new sectoral deals. In October 2019, Barrick Gold Corp reached a deal to settle a long-running tax dispute between Tanzania and the Acacia mining group. This includes settling outstanding tax and other disputes (worth US\$300 million), the lifting of a concentrate export ban, and the sharing of future economic benefits from mines on a 50:50 basis through a newly established company named Twiga Minerals.

In sum, under the authoritarian governance model, some of the major policies and institutional reforms implemented so far have aimed at restructuring the economy and curtailing the rise of unproductive rents. In trying to achieve this goal, however, old and new rents have been created or shifted from some areas to others, which has generated opportunities for some business groups while closing avenues for others.

## 5. DBGs in Tanzania: stylised facts

Throughout its history, since the early 1920s, Tanzania has witnessed the emergence of a number of DBGs. The development of these enterprises has been both a response to and a driver of change within the six major RCAs. In our analysis we have focused on the most recent four RCAs, starting from the 1980s. During this period several DBGs emerged, reaching in some cases a very large size, relatively speaking.

While all these business groups are highly diversified, their diversification is the result of both similar as well as very different responses to the evolving RCAs. In particular, these businesses have developed quite unique business strategies which have allowed them to leverage the three competitive advantages offered by the DBG model. In particular, these five companies show the advantages that an increasingly productive organisational integration of rents can offer to DBGs in developing countries.

During the ‘undoing Ujamaa’ RCA (1985–1990) and ‘experimenting with *Ruksa*’ RCA (1990–2005), business groups mainly relied on a combination of rents capture and profit-making activities. Given the informal nature of the economy and the semi-stable configurations of policies and institutions, business groups could not focus on a long-term strategy of business development and diversification. In an economy dominated by rents, emerging business groups developed capabilities that were right given the context. These capabilities allowed them to become extremely responsive to rents opportunities. With the expansion of domestic markets, business groups started gradually learning how to make businesses profitable along the way. In some cases, they started leveraging cumulated rents to reinvest. Some other business groups never got to this point and continued along the same rents-driven business development pathways throughout the 1990s and 2000s.

Those business groups that started reinvesting the cumulated rents during the ‘experimenting with *Ruksa*’ RCA also started shifting towards a more systematic organisational integration of rents. A number of processes were critical, including: shifting resources from one activity to another in time and over time, while retaining control over business groups; creating ‘internal’ and ‘shadow’ markets, including controlling key stages of the value chains and price mark-ups; verticalising backward or forward activities; and developing parallel markets for collecting and providing financial services. Organisational integration of rents required the development of new capabilities which business groups did not have in the past.

During the third and fourth RCA, the loose allocation of rents and dominance of unproductive rents capture paved the way for divergent pathways both within and across DBGs. In some cases, rents opportunities pushed investments towards new sectors and strategic control of these assets (financial and construction in particular); in other cases, DBGs developed related diversification businesses often anchored to agro-food industries or extractives. In these sectors, DBGs exploited complementarities among activities along verticals, by removing middle men or by taking their role. For example, access to financial resources allowed DBGs to develop significant capabilities in logistics (Sial, 2020). Controlling

logistics is central to extract value within agro-industries but also within retailing activities with low profitability margins but high volumes.

The fourth RCA phase has presented both opportunities and challenges to DBGs in Tanzania. A number of them have managed to align their business strategies to government efforts. Others have chosen an exit option, and have identified market opportunities in the region as new avenues for investments. It is too early to say definitively, but the unfolding RCA appears to have already impacted on the development pathways of Tanzanian DBGs. The extent to which a developmentalist agenda is aligned to a feasible transition will determine the success of this new RCA.

## 6. Conclusions and policy implications

DBGs have played, and continue to play, an increasingly important role in the structural transformation of the economies across Africa. Yet, despite this, very little is known about them, even within corporate-focused literature. Their capacity to contribute towards industrialisation and very recent progress towards regionalism is one of many lessons which can shed light on and aid understanding of the business environment in late industrialisation.

In this paper we have argued that the way in which DBGs operate and develop is not 'business as usual'. Moving away from ideal-type schematic typologies of DBGs we have introduced a new framework – the RCA framework – aimed at capturing the historical process through which capitalist accumulation develops under different policy and institutional regimes, but also business strategies and changes in the political settlement.

We have pointed out the existence of three key competitive advantages offered by a DBG business model. These are: combining rents- and profit-seeking, organisational integration of rents, and strategic control. These processes play an important role in countries such as Tanzania where DBGs have developed and adapted under constantly evolving RCAs. We have looked at the Tanzania case and have focused on four RCAs starting from the 1980s. While many of today's DBGs started their journey before then, we have shown how the four RCAs from this period have steered and accelerated the development of such business groups. For each RCA we have focused our attention on the semi-stable set of policies and institutions (as well as potential complementarities) which have shaped DBG strategies.

While a number of similarities can be identified among major DBGs today in Tanzania, there is also a high degree of heterogeneity. We have pointed out how reaching a level of related diversification and a high degree of organisational integration of rents is something which has not always been successful. However, there is evidence that several DBGs have reached that stage and have developed the required capabilities to be competitive in the Tanzanian and – in some cases – regional context.

With respect to the most recent RCA under President Magufuli, we have pointed out both elements of continuity and discontinuity. The tension between a developmentalist agenda and its feasible implementation has been highlighted with reference to the risk of a premature formalisation process. The speed of the transition in a highly concentrated economy that is still dominated by large segments of informality requires an incremental approach focusing on both intended and potential unintended consequences of reforms. It also requires recognition of the high degree of heterogeneity among DBGs, in terms of their trajectory and potential capacity to contribute to the structural transformation process.

Business groups in general, and DBGs across Africa, have often been referred to as part of the rentieristic problem. However, they can also be part of the solution, especially if

business groups exploit their accumulated rents to drive investments in the productive sector and operate in increasingly competitive markets. Business groups can also exercise horizontal pressures to reduce rents capture and, in this way, complement vertical enforcement of rules.

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